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Pensions Committee

Date: **WEDNESDAY, 21 SEPTEMBER 2016**

Time: **7.00 PM**

Venue: **COMMITTEE ROOM 3 - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW**

Meeting Details: Members of the Public and Press are welcome to attend this meeting

Councillors on the Committee

Philip Corthorne (Chairman)
Michael Markham (Vice-Chairman)
Tony Eginton (Labour Lead)
Peter Davis
Beulah East

Published: Tuesday, 13 September 2016

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www.hillingdon.gov.uk

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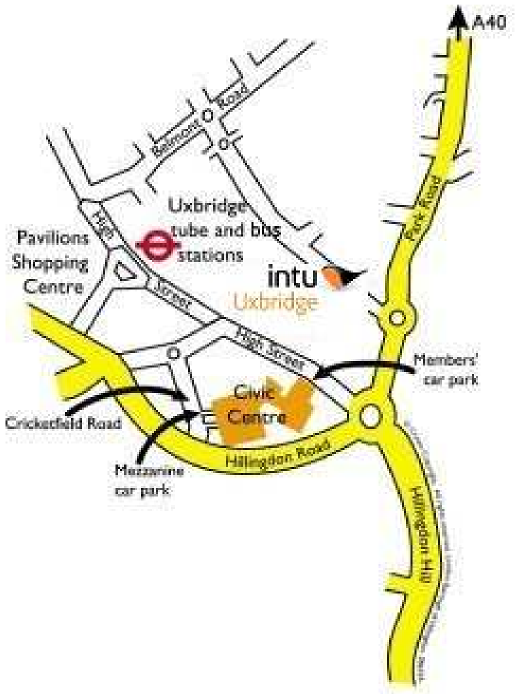

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Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including authorisation or prohibition of particular investment activities.
2. To review the Statement of Investment Principles and amend it when necessary.
3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.
4. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
5. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
6. To review the appointment of specialist advisors and service providers and make new appointments as necessary.
7. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.
8. To authorise the admission of other bodies to the Fund.
9. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.
10. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.
11. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.
12. The Corporate Director of Finance be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the Committee, reporting back to the Pensions Committee any exercise of these powers for ratification.

Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

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Agenda Item 3

Minutes

Pensions Committee

15 June 2016

Meeting held at Committee Room 3A- Civic Centre, High Street, Uxbridge UB8 1UW

	Committee Members Present: Councillors Philip Corthorne (Chairman), Michael Markham (Vice-Chairman), Peter Davis and Tony Eginton. **Apology for Absence:** Councillor Beulah East. **LBH Officers Present:** Tunde Adekoya, Ken Chisholm, Sian Kunert, Nancy Le Roux, Paul Whaymand and Khalid Ahmed.	
3.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** Councillor Philip Corthorne declared a Non-Pecuniary Interest in all agenda items because he was a deferred member of the Local Government Pension Scheme. He remained in the room during discussion on the item. Councillor Tony Eginton declared a Non-Pecuniary Interest in all agenda items as he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion on the item.	
4.	**MINUTES OF THE MEETINGS HELD ON 23 MARCH AND 12 MAY 2016** Agreed as accurate records.	
5.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** It was agreed that Agenda Items 5, 6, 7, 8 and 10 would be considered in private.	
6.	**UPDATE ON PROGRESS OF LONDON CIV AND POOLING RESPONSE** *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the*	

		Action By:
	schedule to the Act). The Committee was provided with an update on progress made in relation to the pooling of Pension Fund investments. **RESOLVED:** **(1) That the information provided be noted.**	
7.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE** *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The Committee was provided with a presentation on how the current investment strategy would be transitioned over to the London CIV. In addition Members were asked to discuss and agree a new Direct Lending investment and were also provided with details on current Fund Manager performance and how this was impacting on the overall performance of the Fund. **RESOLVED:** **(1) That approval be given to the decision relating to investments.** **(2) That the Fund performance update in respect of mandates of Fund Managers be noted.** **(3) That the implementation of decisions be delegated to the Officer and Advisor Investment Strategy Group.**	
8.	**PENSIONS ADMINISTRATION CONTRACT** *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The Committee was provided with a report which provided an update on the project to transfer the Pensions Administration to Surrey County Council, together with the latest update on administration performance and early retirement statistics. Members were informed that the project to transfer pension	

	administration to Surrey County Council was progressing well with the appointment of staff taking place. The Committee acknowledged the work which had been carried out by the Corporate Pensions Manager and his team to ensure the smooth transition of the service from Capita to Surrey County Council. **RESOLVED:** **(1) That the progress made on the transfer of the Pensions Administration be noted.** **(2) That the latest administration performance figures be noted.** **(3) That the latest information in respect of early retirements be noted.**	
9.	**PENSION FUND ADMINISTRATION STRATEGY** *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The Committee was informed that the Pension Board, as part of their work on governance of the Pension Fund, had identified that it would be best practice to have an Administration Strategy in place. Details of the reasoning behind this were detailed in the report. The Committee was asked to consider the draft strategy before it went out to consultation with stakeholders. It was agreed that the strategy be brought back to Committee after consultation. **RESOLVED:** **(1) That the draft Administration Strategy be approved for consultation with scheme employers and with Surrey County Council Pension Administration Team.**	
10	**PENSION FUND RISK REGISTER** *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* The report provided details of the main risks to the Pension Fund which enabled the Committee to monitor and review. In addition a Risk	

	Management Policy was provided. **RESOLVED:** **(1) That approval be given to the draft Risk Management Policy for the Hillingdon Pension Fund.** **(2) That the Committee considered the Risk Register and noted the measures which were being taken to mitigate the indentified risks.**	
11.	**PART II - MINUTES OF THE MEETING HELD ON 23 MARCH 2016** *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).* Agreed as an accurate record.	
	The meeting, which commenced at 7.00pm closed at 7.50pm	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Khalid Ahmed on 01895 250833. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

External Auditor Report on the Pension Fund Accounts

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	EY: Report on the financial statement audit for the year ended 31 March 2016 Pension Fund Accounts 2015/16

SUMMARY

The attached draft report details the work of the External Auditor on the audit of the 2015/16 Pension Fund Accounts. At this stage there is a substantial amount of work outstanding and a fuller verbal update will be provided to Committee. The auditor has indicated that, subject to clearance of final points they expect to issues an unmodified opinion on the financial statements.

Also attached to this report is a draft of the Pension Fund Annual Report for 2015/16 for Committee approval for publication.

RECOMMENDATIONS

1. **To note the initial auditor's findings on the audit of the Pension Fund accounts for 2015/16.**
2. **To delegate authority to the Pension Committee Chairman to sign the Pension Fund accounts on completion of the audit.**
3. **To approve the Fund Annual Report for publication.**

BACKGROUND

1. The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.

2. The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Code of Practice (The Code).

3. The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, EY LLP, which must be completed by 30 September 2016.

4. Whilst Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Pension Fund Accounts also requires the approval of Pensions Committee. This report on the Pension Fund accounts will also be taken to Audit Committee on 22 September 2016.

SCOPE OF THE EXTERNAL AUDIT

5. Auditors are required to communicate to elected Members matters of governance that arise from the audit of the financial statements. These cover, in addition to an update on the audit status:

- Significant audit risks
- Accounting and internal controls
- Consideration of Fraud

6. In addition, the Auditor requires a “Representation Letter” to be signed by management. The contents of this letter are set out at Appendix F to the attached EY report. The letter has to include representations from management on matters material to the statement where sufficient appropriate evidence cannot reasonably be expected to exist.

COMMENT ON THE CONTENTS OF THE AUDITOR'S REPORT

7. The report gives a comprehensive account of the work undertaken during the audit and includes several auditor mandatory reporting requirements. The report is positive and reports satisfactorily on the key audit risks. As yet there have been no required adjustments to the Pension Fund accounts as a result of the audit testing.

ANNUAL REPORT

The fund is required to produce an Annual Report and to publish by 1 December each year. The draft report for 2015/16, attached, contains information on the Fund's activities over the last year and is brought to Committee for consideration and approval to publish.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

BACKGROUND DOCUMENTS

None

London Borough of Hillingdon Pension Fund

Draft Audit Results Report - ISA (UK and Ireland) 260 for the year ended 31 March 2016

September 2016

Ernst & Young LLP

Building a better working world

Deliberately left blank for printing purposes

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Standards and General Purposes Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit. We will also share the findings of our work with the Pension Fund Advisory Committee.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	We report progress on our audit of the financial statements of London Borough of Hillingdon Pension Fund for the year ended 31 March 2016. A number of detailed work areas remain in progress: • Contributions; • Related parties; • Private Equity; • Management expenses; • Journal entries; and • Change in market value of investments. We will provide a verbal update on progress on outstanding work areas at the 21 September 2016 meeting of the Pensions Committee. Based on the work undertaken to date we anticipate issuing an unqualified opinion on the Fund's financial statements. However, this is subject to the satisfactory completion of our outstanding work.
Audit differences	There are no unadjusted or adjusted audit differences based on the work completed to date that we wish to bring to your attention.
Scope and materiality	In our Audit Plan presented at the 15 March 2016 Audit Committee meeting, we communicated that our audit procedures would be performed using a materiality of £8.0 million. We have reassessed this based on the actual results for the financial year and have increased this amount to £8.1 million based on the increased level of net assets reported in the unaudited financial statements compared to the prior year. The threshold for reporting audit differences which impact the financial statements has also increased from £401,000 to £405,000. The basis of our assessment is 1% of net assets, which has remained consistent with prior years. We carried out our work in accordance with our Audit Plan subject to the outstanding areas of work.
Significant audit risks	We identified risks of management override, revenue recognition and incorrect valuation of assets during the planning phase of our audit, which we reported to you in our Audit Plan. The 'addressing audit risks' section of this report sets out how we have gained audit assurance over this.
Other reporting issues	There are no other matters that we wish to bring to your attention in the 'other matters' section of this report below.

Control observations	We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Since we issued our Audit Plan on 15 March 2016 there has been a change in the audit team and I have replaced Paul King as Executive Director. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Tim Sadler

Executive Director
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The London Borough of Hillingdon as the administering authority of the Pension Fund is responsible for preparing and publishing its Statement of Accounts which includes the financial statements of the Pension Fund.

The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Pension Fund

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/2016 financial statements of the Pension Fund.
- Report on whether information in the Annual Report is consistent with the financial statements.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Pension Fund's accounting policies and key judgments.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls. We were able to rebut the risk of fraud in revenue recognition during our audit work and therefore have not included this in our assessment of significant risks.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
Risk of management override As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	Our approach focused on: ▸ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▸ Reviewing accounting estimates for evidence of management bias, and ▸ Evaluating the business rationale for significant unusual transactions.	We have completed part of our planned programme of work in this area, although our work to test journals remains in progress. We have identified no evidence of management override or bias. We have also identified no significant unusual transactions in the course of our work undertaken to date.
Risk of incorrect valuation of investments Based on initial planning work on the Pension Fund and discussions with management we note that the Pension Fund holds a significant balance of investments in alternative investments. Some of these investments have money committed to them for a number of years. By their very nature, alternative investments are difficult to value and their valuation includes an element of judgement.	Our approach focused on: ▸ Reviewing and testing investment valuation policies ▸ Reviewing accounting estimates for evidence of management bias ▸ Obtaining third party confirmation for investment valuations	We have completed our testing and identified no issues. We have not yet completed this work but have not identified any issues to date.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest.

Control themes and observations

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We concluded that we would not place reliance on controls and have adopted a fully substantive approach and have therefore not tested the operation of controls.

We were pleased to see that the Council had undertaken a self-assessment to assess compliance with the Pension Regulators (TPR) Code of Practice No 14. This relates to the management of the Fund and whilst the majority of the items in the Practice Note were assessed as compliant or part compliant, a number were not. The most significant areas of non-compliance relate to maintaining accurate member data and maintain contributions. Officers have prepared an action plan to improve compliance. In addition, Pension Committee took the decision to delegate Pension Administration to Surrey County Council with effect from 1 November 2016, under a Section 101 agreement.

We would recommend that performance of the new administrator is monitored and reported to the Pensions Board to confirm the expected improvements have been achieved.

We also noted that no Internal Audit work had been undertaken on the Pension Fund in 2015/16 and we would recommend that consideration be given to include some time in their future plans to review controls within the Pension Fund.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix F. At this stage we are not expecting to request any non-standard representations.

Other matters to bring to you attention

There are no other matters which we wish to bring to your attention subsequent to the completion of our outstanding work.

Appendix A – Uncorrected audit differences

There are no uncorrected misstatements greater than our nominal amount of £405,000, subject to completion of our outstanding work.

Appendix B – Corrected audit differences

There are no corrected audit differences which we wish to draw to your attention, subject to the completion of our outstanding work.

Appendix C – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 15 March 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Pensions Committee on 21 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 15 March 2016.

Appendix D – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £
Total Audit Fee – Code work	21,000	21,000

Our actual fee in in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

Appendix E – Draft audit report

Independent auditor's report to the members of London Borough of Hillingdon

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of Responsibilities set out on page 10, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Tim Sadler

Executive Director

for and on behalf of Ernst & Young LLP

Southampton

XX September 2016

Appendix F – Draft management representation letter

[Date]

Tim Sadler
Ernst & Young
19 Threefield Lane
Southampton
SO14 3RB

Dear Sir

This representation letter is provided in connection with your audit of the financial statements of London Borough of Hillingdon Pension Fund ("the Pension Fund") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016, and of the amount and disposition at the end of the year of its assets and liabilities, in accordance with applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of the Pension Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and for keeping records in respect of contributions received in respect of active members of the Pension Fund and for making accurate representations to you.

2. We confirm that the Pension Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Pension Fund should change.

3. We acknowledge our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above show a true and fair view of the financial position and the financial performance of the Pension Fund in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. We believe that the Pension Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with Accounts and Audit (England) Regulations 2015 and CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Pension Fund (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the Pension Fund involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

C. Compliance with Laws and Regulations

1. We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.

2. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

3. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Pension Fund year or subsequently concerning matters of non-compliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.

    - Additional information that you have requested from us for the purpose of the audit.

    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

1. You have been informed of all changes to the Pension Fund rules.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all minutes of the Pension Fund Committee (or summaries of actions of recent meetings for which minutes have not yet been

prepared) held through the year to the most recent meeting on the following date 15 June 2016.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Pension Fund's related parties and all related parties and related party transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We have disclosed to you, and the Pension Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

6. No transactions have been made which are not in the interests of the Pension Fund members or the Pension Fund during the Scheme year or subsequently.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Advisory Reports

1. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Pension Fund's financial statements

H. Independence

1. We confirm that no-one charged with governance of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

I. Derivative Financial Instruments

1. We confirm that the Pension Fund has made no direct investment in derivative financial instruments.

J. Actuarial valuation

1. The latest report of the actuary, Hymans Robertson LLP, as at 31 March 2013 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Accounting Estimates

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

2. Accounting estimates recognised or disclosed in the financial statements:

- We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.

- The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

- The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.

- No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

L. Investment managers' control reports ISAE 3402

1. The latest reports available do not all cover the whole of the 2015/16 audit year. We can confirm that we are not aware of any issues at the respective investment managers that indicate a reduction in control procedures.

Yours faithfully,

____

Paul Whaymand

Corporate Director of Finance

I confirm that this letter has been discussed and agreed at the Pensions Committee on 21 September 2016

____

Chair of Pensions Committee

Appendix G – Required communications with Those Charged with Governance – Pensions Committee

There are certain communications that we must provide to the Audit Committee of UK clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually of in aggregate, that indicated there could be doubt about the Pension Fund's ability to continue as a going concern for the 12 months from the date of our report.
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Audit Results Report
Fraud ► Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud	We have made enquiries of management. We have not becaome aware of any fraud or illegal acts during our audit.
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	We have not identified matters we wish to report.

Required communication	Reference
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	We have received all requested confirmations.
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have not identified any material instances of non-compliance with laws and regulations.
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	Audit Plan and Audit Results Report
Significant deficiencies in internal controls identified during the audit	None identified
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	Audit Plan Audit Results Report

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London Borough of Hillingdon Pension Fund Annual Report 2015/16

HILLINGDON
LONDON

www.hillingdon.gov.uk

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GLOSSARY

CHAIRMAN'S FOREWORD

The 2015/16 financial year has been another busy year for the Hillingdon Pension Fund and the Fund continues to prosper. By the end of 2015/16 the Fund had grown to a record level of just over £810 million and for the three years to March 2016 the Fund returned an annualised 6.27% overall. Membership of the scheme also continued to increase with an almost 4% increase over the previous year. The scheme is however maturing with new contributions just slightly less than monies paid out in benefits. As a result a key focus for Committee over the coming months will be the Fund's cashflow.

The start of the municipal year in May 2015 brought a change to the Council's Constitution to formally establish a local Pension Board, as required by legislation. As a result membership of Pension Committee was reviewed and the Investment Strategy Committee was abolished as there was no need for three formal Pension Bodies within the Council. I retained the chairmanship of the Pensions Committee, supported by Councillors Markham, Eginton, Davis and East. The local Pension Board was established with Cllr Simmonds in the Chair, supported by Councillors Chapman and Morse, representing the employers in the Fund. Member representatives were also appointed following a recruitment process - Venetia Rogers (Active member); Andrew Scott (Active member - Uxbridge College); and Roger Hackett (Pensioner member). The Board has a guidance, advisory and scrutiny remit.

It has been a busy year with Fund developments; most notable was the clear message from central government that we need to pool our investment assets with other LGPS administering authorities. In terms of scale, the indications are that LGPS assets will be pooled into five or six large vehicles of £30-40bn each but individual funds, like Hillingdon, will retain local accountability and responsibility for setting their own investment strategies and asset allocation. This level of scale should reduce costs overall for the LGPS, including the costs associated with manager selection and turnover. Following this direction, the Council took the decision to join with the other 32 London Boroughs to form the London Collective Investment Vehicle (CIV). The CIV has been formally established as an Authorised Contractual Scheme (ACS) and the Fund has already made its first collaborative investment of £94 million. This is the first stage in the long road towards pooling of all the Fund's assets, which is expected to be achieved over the next 10 to 15 years.

Another significant change will come from the decision to terminate the contract with the scheme Administrator - Capita Employee Benefits - due to sustained poor service delivery. Instead we have made arrangements to work collaboratively with Surrey County Council, who will deliver administration services from 1 November 2016.

Monitoring the Fund's investments has kept Committee busy over the last 12, although no new opportunities for investment were identified over that period. Activity across the range of managers retained by the Fund was low over the year as most managers matched, or exceeded their benchmarks. One exception was Kempen, one of two managers (the other being Newton) tasked with managing a global equity brief that targets a resilient, market premium dividend yield. Kempen's approach has lacked the flexibility that might have allowed them to prosper in the difficult market conditions of recent years and which are likely to be sustained. As a result the decision has been taken to consolidate the programme in the Newton mandate.

The Committee and Board are fully committed to the development of its member skills and knowledge. All members are undertaking a comprehensive needs and training assessment, allowing us to tailor our training to individual Committee and Board member needs. This is in addition to the regular training we have introduced at each of the quarterly Committee and Board meetings.

Looking ahead, 2016 is the next triennial revaluation of the Fund and we will all await the results on the funding position with interest. We have arranged a meeting with Fund employers later in 2016 so that the full implications of the results can be discussed in detail. It will be a busy year as we consider further pooling investments and we finalise arrangements for the move of the administration to Surrey.

Cllr Philip Corthorne
Chairman Pensions Committee

FUND GOVERNANCE and STATUTORY INFORMATION

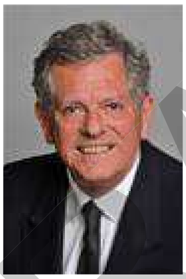
FUND GOVERNANCE

The London Borough of Hillingdon Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The benefits paid out and the regulations are set nationally, but the Fund is administered locally. As the Administering Authority, the London Borough of Hillingdon has legal responsibility for the effective management of the Fund. The Council delegates this responsibility to the Pensions Committee ('the Committee'), which is the formal decision making body for the Fund. The Corporate Director of Finance has delegated authority for the day to day running of the Fund. The local Pension Board ('the Board') was established in 2015 to assist the scheme manager in securing compliance with regulations relating to the governance and administration within the requirements set by the Pension Regulator.

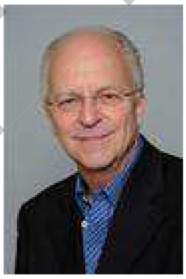
Pension Committee

The Pension Committee consists of five Councillor Members. During 2015/16 these were:

Councillor
Philip Corthorne
(Chairman)



Councillor
Michael Markham
(Vice-Chairman)



Councillor
Peter Davis

Councillor
Tony Eginton
(Labour Lead)

Councillor
Beulah East

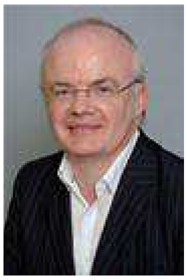
The Committee meets quarterly to discuss investment strategy, legislative changes and developments that may affect the fund, and to review the performance of the Fund Managers and the Fund Administrators. Committee training has been incorporated into these quarterly meetings to ensure that Committee Members maintain their knowledge and skills at a sufficient level to enable them to discharge their duties in relation to the Fund.

Local Pension Board

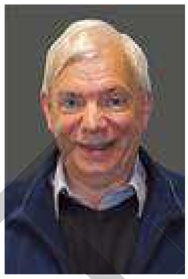
The London Borough of Hillingdon local Pension Board was established in 2015 and like the Committee meets on a quarterly basis. The members of the Board during 2015/16 were:

Employer Representatives:

Councillor
David Simmonds
(Chairman)



Councillor
Alan Chapman
(Vice-Chairman)



Councillor
John Morse

Scheme Member Representatives:

Venetia Rogers	Active Member
Andrew Scott	Active Member
Roger Hackett	Retired Member

The Board is not a decision making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee complies effectively and efficiently with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. Additionally the Pension Board will help ensure that the London Borough of Hillingdon Pension Fund is managed and administered effectively and efficiently and complies with the code of practice.

Corporate Director of Finance

Paul Whaymand in his role of Corporate Director of Finance has delegated responsibility for the day to day running of the Pension Fund.

FUND MANAGEMENT and ADVISORS

The work of the Committee is supported by a number of officers, advisors and external managers.

Officers Responsible for the Fund

The Strategic Finance team ensures that both the Committee and Board receive relevant advice on investment strategy, monitoring of the performance of the fund and on administration matters, in addition to undertaking the accounting duties of the Fund.

Nancy le Roux	Deputy Director - Strategic Finance
Sian Kunert	Chief Accountant
Ken Chisholm	Corporate Pensions Manager
Tunde Adekoya	Pension Fund Accountant

Scheme Administration

Administration of the scheme is currently contracted out to Capita Employee Benefits (CEB). CEB maintain pension scheme membership records and calculate and pay benefits.

London Borough of Hillingdon Pension Fund
Capita Employee Benefits
PO Box 195
Mowden Hall
DARLINGTON
DL1 9FS

Fund Custodian and Performance Monitoring

The Northern Trust Company acts as the global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Funds requirements. Additionally Northern Trust provide performance analytics, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly and annual basis.

Northern Trust
50 Bank Street
Canary Wharf
LONDON
E14 5NT

Fund Actuary

The Fund's actuary is Hymans Robertson

Catherine McFadyen FFA
Hymans Robertson LLP
20 Waterloo Street
GLASGOW
G2 6DB

Fund Managers

Day to day investment managements of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). During 2015/16 the Fund used the following external managers:

Fund Manager
UBS Global Asset Management
Ruffer LLP
Newton Investment Management
Kempen International Investments
GMO Investments
JP Morgan Asset management
State Street Global Advisors
Adam Street Partners
LGT Capital Partners
AEW UK
Permira LLP
Macquarie Investment
M&G Investments (Direct Investment)

Advisors to the Fund

The Fund's Investment Advisor is KPMG who was appointed July 2014. They advise the Committee on the Fund's strategic asset allocation and assist in the monitoring of fund managers.

David O'Hara
Director
Investment Advisory
Tax & Pensions
KPMG LLP (UK)
191 West George Street
GLASGOW
G2 2LJ

In addition the Fund has an Independent Advisor - Scott Jamieson.

The Fund has also appointed AON Hewitt to provide support on governance arrangements to the Board.

Aon Hewitt
25 Marsh Street
BRISTOL
BS1 4AQ

Legal Services

Legal support to the Fund is provided in house by the Council. The Council's Borough Solicitor is Raj Alagh.

Auditor

The Fund's external auditor, appointed by the Audit Commission is Ernst & Young

Ernst & Young LLP
Wessex House
19 Threefield lane
SOUTHAMPTON
SO14 3QB

Banker

Banking services are provided to the Fund by the Council's banker Lloyds.

Lloyds Bank plc
25 Gresham Street
LONDON
EC2V 7HN

AVC Provider

The Fund's provider for additional voluntary contributions is Prudential.

Prudential AVC Customer Services
Prudential
CRAIGFORTH
FK9 9UE

OVERVIEW OF THE SCHEME

The London Borough of Hillingdon Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by statute. The main regulations governing the operation of the scheme during the year were the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The Local Government Pension Scheme Regulations 2013 introduced the new 2014 LGPS which amongst other things changed the benefits structure from a final salary to career average revalued earning (CARE) scheme. In addition the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 covers the investment aspects of the funds.

Hillingdon is the Administering Authority for the Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place covering year end as at 31 March 2016.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members. The benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. Contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme as applying during the financial year 2015/16 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual’s state pension age. The key benefits of the scheme are outlined below:

- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earned prior to 1 April 2014.
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.
- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for dependents:- spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined. The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014. It should be recognised that a large number of scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining Scheme.
- Pensions for dependents:- spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

Contracting Out Status (with effect from 1 April 2002 until 5 April 2016) - The LGPS was contracted-out of the State Second Pension Scheme (S2P), up to 5 April 2016 when contracting-out ceased. This meant that members paid reduced National Insurance contributions and that they did not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension which would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, a Guaranteed Minimum Pension (GMP) is calculated by the Inland Revenue which is the minimum pension which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Additional Voluntary Contributions - A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed the Prudential as the nominated provider for this purpose. This is run separately to the Hillingdon Pension Fund. Further details are available from the Prudential Pensions Connection Team on 0800 032 6674.

<u>REGULATIONS</u>

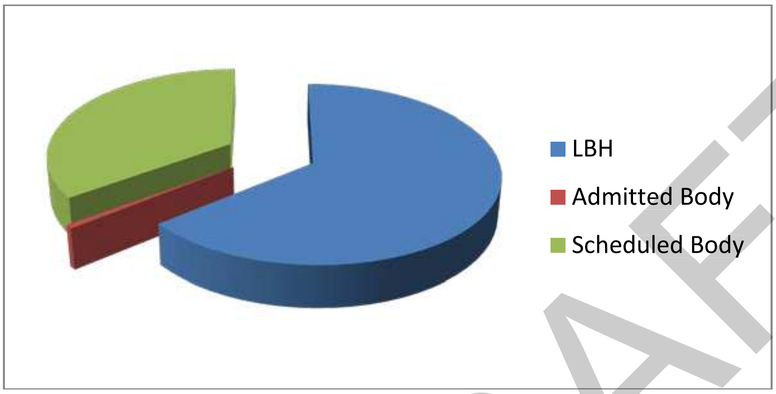
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- The Local Government Pension Scheme (Administration) Regulations 2007 (as amended)

FUND MEMBERSHIP

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund. Membership of the LGPS is not compulsory, although employees are automatically admitted to the fund unless they elect otherwise. Over the last few years total membership of the fund has continued to grow, as have the number of employers participating in the Fund.

Active Membership

As at 31 March 2016 there were 8,267 members actively contributing to the Fund. The diagram below shows a breakdown by employer type:

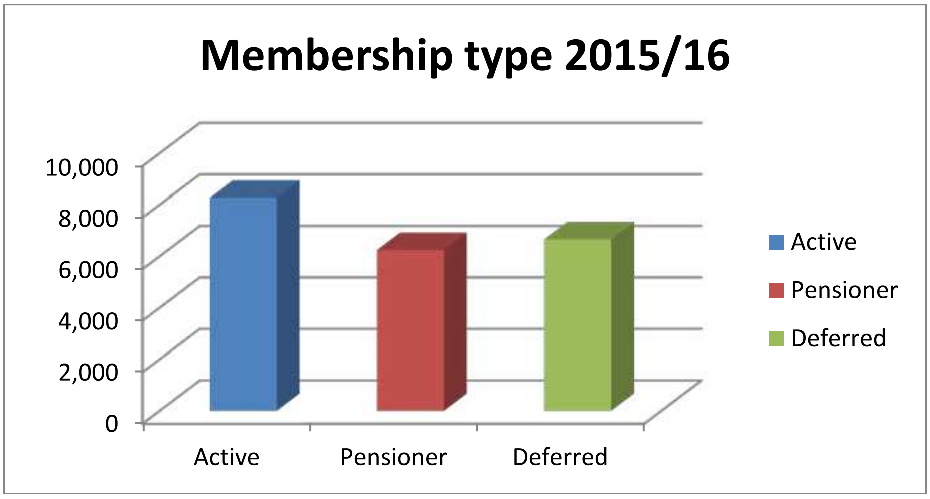


General Scheme membership

Membership of the scheme is split between

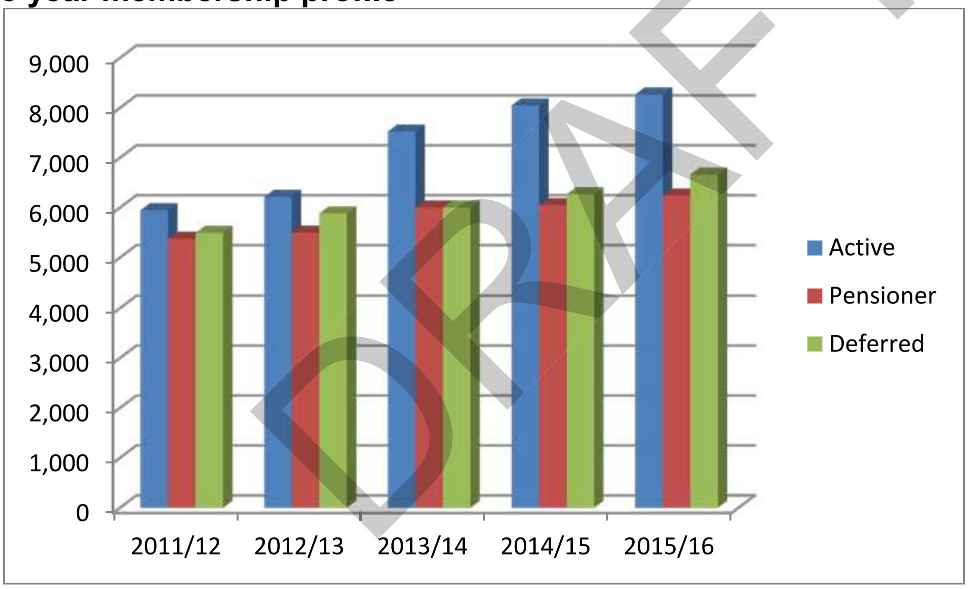
- active members - those still contributing to the scheme;
- deferred members - those who are no longer active but have accrued benefits to be held until retirement or transfer to a new employer's scheme;
- and pensioner members - who are both former active members now drawing their benefits and dependents of former active members.

The membership of the scheme analysed over the relevant membership profile is shown below:



As can be seen from the following chart, active membership continued to grow over the last financial year. Active membership increased by 221 and overall scheme membership increased year on year by almost 4% to 21,169 scheme members. The membership profile over the last five years is shown below:

5 year membership profile

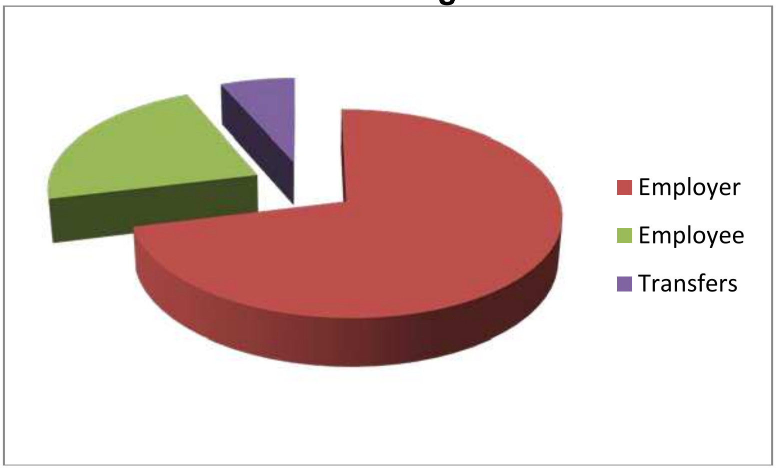


CONTRIBUTIONS

Total contributions (including transfers) into the Fund during 2015/16 amounted to £42 million compared to £38.5 million for the previous year. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. Employer contribution rates are set by the Fund actuary and the rates that applied during 2015/16 were set from the 2013 valuation.

The chart below shows the split between employee and employer contributions and transfers. Employers contributed 71% of total contributions during 2015/16.

Contributions received during 2015/16



The current employer contribution rates and the total contributions paid by each Employer in 2015/16 are shown in the table below.

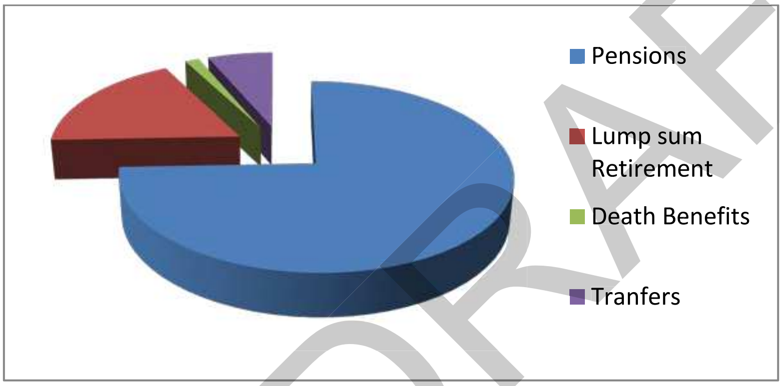
Employer	Type	Total Contributions	Contribution Rate %
Barnhill Academy	Scheduled Body	293,108.29	23.40
Belmore Academy	Scheduled Body	156, 657,86	22.80
Bishop Ramsey Academy	Scheduled Body	281,675.78	26.30
Bishopshalt Academy	Scheduled Body	295,628.78	29.60
Charville Academy	Scheduled Body	203,491.27	35.70
Coteford Academy	Scheduled Body	109,781.64	27.40
Cranford Park Academy	Scheduled Body	261,231.96	28.00
Douay Martyrs Academy	Scheduled Body	269,352.01	30.30
Eden Academy	Scheduled Body	689,711.92	25.10
Greenwich Leisure	Admitted Body	87,722.00	16.80
Guru Nanak Academy	Scheduled Body	316,814.84	21.20
Harefield Academy	Scheduled Body	203,794.09	19.00
Haydon Academy	Scheduled Body	372,399.11	22.20
Heathrow Aviation Engineering	Scheduled Body	12,468.30	22.10
Heathrow Travel Care	Admitted Body	16,642.82	18.90
Hillingdon & Ealing Citizens Advice	Admitted Body	55,471.21	19.10
Hillingdon Primary School	Scheduled Body	159,854.52	22.50
Lake Farm Park Federation	Scheduled Body	51,800.23	18.10
LBDS Frays Academy	Scheduled Body	336,345.02	24.80
London Housing Consortium	Scheduled Body	169,334.32	21.10
Mitie Cleaning	Admitted Body	13,246.56	21.00
Mitie Facilities Management	Admitted Body	48,598.02	21.00
Nanaksar Primary School	Scheduled Body	33,275.32	15.30
Northwood Academy	Scheduled Body	97,356.07	21.70
Pinkwell School	Scheduled Body	249,775.94	24.30
Queensmead Academy	Scheduled Body	225,009.77	24.30
Rosedale Hewens Academy	Scheduled Body	317,254.98	24.50
Ruislip High School	Scheduled Body	190,477.94	21.50
Ryefield Primary School	Scheduled Body	157,396.13	21.10
Servest Group Ltd	Admitted Body	1,537.32	20.60
Skills HUB	Scheduled Body	105,955.09	36.90
Stockley Academy	Scheduled Body	188,940.44	19.40

Swakeleys Academy	Scheduled Body	183,402.46	24.00
Taylor Shaw	Admitted Body	84,251.15	31.10
Uxbridge College	Scheduled Body	890,401.39	17.80
Uxbridge Academy	Scheduled Body	282,490.85	21.50
Vyners Academy	Scheduled Body	233,621.20	28.70
Willows Academy	Scheduled Body	40,640.47	27.30
Wood End Academy	Scheduled Body	227,848.67	24.50
Young Peoples Academy	Scheduled Body	104,786.19	28.60
Total		**8,019,551.93**	

BENEFITS

The benefits paid out from the Fund comprise annual pensions, lump sum retirement payments, death benefits and transfers to other funds. Total benefits paid out during 2015/16 amounted to £42.5 million, an increase of £6.6 million compared to the previous year.

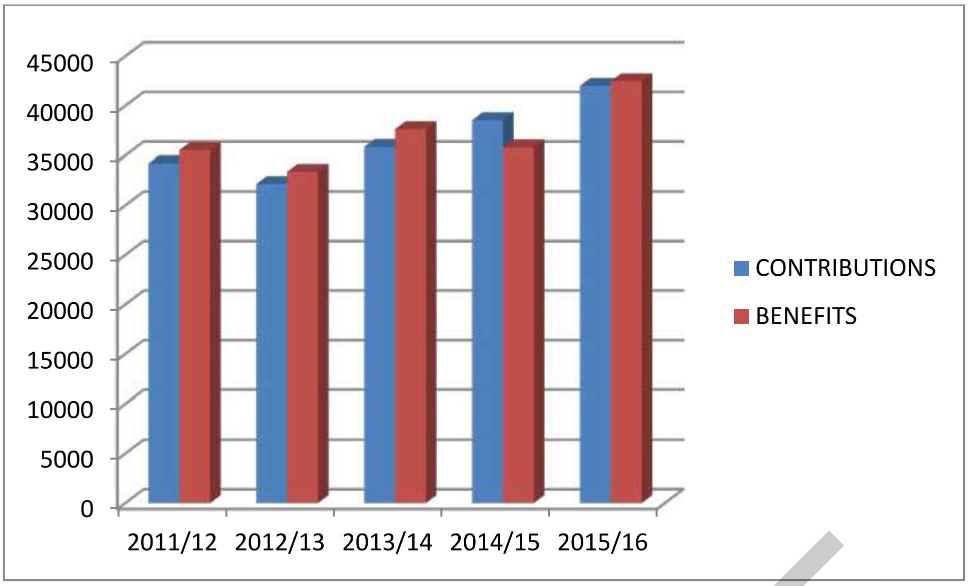
Benefits paid during 2015/16



CASHFLOW

Looking at the comparison between contributions received and benefits paid out over the last five years, it can be seen that while contributions received have continued to grow, with the exception of 2012/13, benefits payments have also continued to grow, with varying differences over the years. Over the last year there was just under half a million more paid out in benefits than received in contributions.

Contributions Received against Benefits Paid



Management Expenses

Management expenses for 2015/16 were £6.3 million, a reduction of £0.4 million compared to 2014/15, attributable to negotiated reduced fees with some fund managers and movement of more assets into pooled funds. These costs add to the negative cashflow position. However, with the considerable savings to be achieved from pooling of assets, as discussed earlier in this report, these costs should reduce going forward.

Whilst the negative cashflow is relatively minor at the moment, cashflow will become an increasing concern for the Committee in the next few years.

To mitigate concerns the council currently has a very defensive investment portfolio, including a number of income generating investments that will reduce the necessity to sell investments should there be a sustained cashflow shortfall. The ongoing strategy will continue to focus on generating income to meet cashflow requirements.

PERFORMANCE REVIEWS and REPORT of the FUND ACTUARY

INVESTMENT REVIEW

Market background for the year ended 31 March 2016

Seen over the period as a whole, returns from asset markets in the year ended March 2016 were unremarkable and, from equities, slightly disappointing. Viewed through the year, markets gyrated wildly as they adjusted to significant changes taking place in energy markets – the oil price collapsed, China – the Authorities embarked on currency devaluation, the prospect of higher official interest rates in America – marking the first increase in almost a decade and, as the period closed, the prospect of the UK voting to exit the European Union. Since the end of the Great Financial Crisis of 2008/09, asset markets have been buffeted by significant economic and political forces; the year to end Q1 2016 was no different. Expectations are the year ahead will continue in the same vein.

Central banks across the world continue to fight against the prospect of negative inflation rates (deflation) arising naturally from successive investment bubbles – in credit and property markets – and levels of debt that threaten to smother economic activity. This has seen the central banks of the Eurozone and Japan sustain policies that are unprecedented. Quantitative easing (QE) and the adoption of negative interest rates challenges the traditional, cautious approach of monetary authorities and highlight the gravity of the threats faced. Against this backdrop, the desire by the US central bank to raise its interest rate (from effectively zero) was a significant issue for investors: would the slower US economy, that might result, represent yet another headwind for weaker economies elsewhere (the majority) or would it mark the start of a return to more normal conditions? Market sentiment oscillated between both assessments generating significant volatility.

A more robust consequence was a higher value for the US$. Initially this provided welcome relief for non-US economies – which saw their international competitiveness improve, but as time passed and the $ rose it became a significant problem for the US economy itself - as it struggled with a loss of competitiveness. It also bore down heavily on emerging market economies where their currencies are either linked in the some way to the (increasingly expensive) US $ or depend on healthy US consumer demand. China bore the brunt of investor concern experiencing significant falls in their equity and property markets. Frustrated by having their currency tied to the US$, the Chinese Central Bank moved to weaken that tie and to lower the Renminbi. China has been a powerful force for lower consumer prices for many years. The prospect of Chinese goods prices moving lower (on a lower currency) saw investors worry afresh about deflation.

Years of very low interest rates have allowed companies to borrow cheaply to finance a range of activities – from genuine investment to supporting dividends. One area of activity that benefitted in particular was that of the fledgling US shale oil and gas production. Combined with apparently permanent high energy prices, investment in new productive capacity ballooned on easy credit. When this capacity came on line, the result was a glut of supply hitting a world of still anaemic economic growth and which was making progress in moving away from fossil fuel energy. Unsurprisingly energy prices tumbled. At one stage crude oil prices traded 60% lower than levels hit just a few months before and this wrought havoc within the new producers and across energy supply nations as a whole. The result has been corporate bankruptcies, a collapse in capital spending and upward pressure on corporate borrowing costs. Lower oil prices also fed through directly to slower rates of inflation.

Very low interest rates generally however have been met with weak borrowing demand from those active in the real economy. This has seen selected asset markets benefit almost by default and none more so than property. The boom in City of London property prices may be marked but it is echoed in increased prices across many major cities in the world.

The appetite for UK property from international investors has allowed the UK to operate a significant current account deficit – we import much more than we export but external demand for UK assets prevented a slide in £. This is not a new feature for the UK but came into strong focus as the period ended and as the UK threatened to vote to leave the European Union. The prospect of a *Brexit* was generally dismissed by those active in equity and bond markets but it was taken much more seriously by currency investors. The £ fell over the year – this was to prove nothing compared to the downshift that occurred after the referendum result was known.

The tone of the paragraphs above together with still low interest rates and ultra-low inflation readings provided a firm platform for government bond markets through the year.

Key asset class information

Equities: International equities, in local currency terms, returned minus 3.9% in the year to end Q1, 2016; a figure matched by the UK equity market. European and Japanese markets generated a loss of just over 10% with investors caring more about sluggish economic activity than the potential benefits of excessively easy monetary policies. The Chinese market, initially buoyed by policy-induced demand, ultimately saw prices at one stage halve; they ended the year returning a loss of 20%. Defying these trends and representing more than half of the world equity market (by value), US equities delivered a positive return of 2%. Hitherto the US economy has outperformed its major trading partners and this has been reflected in a higher level of equity valuations.

Bonds: The defensive merits of government bonds saw (10-year) yields fall over the year by around 0.15% in both the UK and US. Ordinarily such declines would have been unremarkable but they become more significant when yields are only around 1.5%. The decline was to accelerate sharply after the UK voted to leave the EU. Corporate bonds yield spreads were buffeted by the influences discussed earlier and nowhere more so than in the US high yield market (where shale gas companies typically sought funding). UK yield spreads ended the year 0.2-0.4% wider.

Property: UK property returned 12% over the year to 31 March 2016. Property markets benefited from ongoing safe-haven demand for UK based assets and the return of rental growth, with price rises continuing to be driven by the London market.

Outlook

June 23rd marked the day when much changed for the UK. The decision to leave the EU has seen £ fall sharply on the foreign exchanges and gilt yields plummet. At the time of writing the monetary policy response suggests even lower base rates and, if necessary, the return of quantitative easing. The external deficit has long been a significant weakness for the UK and one best addressed by a slower domestic economy and a lower currency. Pre-*Brexit,* these conditions were very difficult to generate (for economic and political reasons). The Referendum result has effectively catalysed a 'fast-track' process of adjustment that will initially prove painful but should ultimately restore a better balance to the economy. Whether the overall level of the economy is higher or lower will depend on myriad factors not least the 'divorce' settlement that the country eventually reaches with the EU. In the meantime one thing seems clear: the Bank of England will underwrite currency weakness and keep policy loose.

Outside the UK, the strains within the Chinese credit markets and how the authorities deal with them, remain a significant risk to global prosperity. In Europe too there are significant challenges with few of the fault-lines exposed by the Greek crisis resolved – the health of Italian banking system is the most immediate concern. Finally the current economic cycle is mature and a slowdown is perhaps inevitable; policymakers have few policy tools left to deploy. Attention will turn increasingly on Governments to loosen fiscal policy; *Brexit* may yet mark the end of the age of austerity with the UK leading the way.

Investment Strategy

The setting and maintenance of the Fund's investment strategy is undertaken through the work of the Pensions Committee. The main consideration when devising an investment strategy for the Fund is recognising that the objective of the Fund is to pay benefits to members and their dependants, both now and in the future. These benefits, which form the liabilities of the Fund, are very long term in nature. For that reason, a reasonably high proportion of assets are invested in growth assets such as equities, property, private equity and other alternative investments which are expected to deliver higher returns over the longer term.

The allocation of Fund assets among the managers' mandates as at 31 March 2016 was as follows:

Manager	UK Managed equities %	Overseas Managed equities %	Bonds %	Property %	Private Equity %	Alternatives %
Adams Street					2.43	
AEW UK				4.56		
GMO	7.85					
JP Morgan			4.63			
Kempen		11.04				
LGT					1.38	
M&G						4.95
Macquarie						2.50
Newton	3.84					
Permira						2.61
Ruffer	2.12	3.83	4.41			
State Street (SSgA)	16.01		6.75			
UBS Equities	12.19					0.01
UBS Property				8.89		
Total	**42.01**	**14.87**	**15.79**	**13.45**	**3.81**	**10.07**

(A cash holding of £17.3m is not included in the above table.)

Fund Managers

AEW were appointed in June 2014 with a direct property mandate to complement the existing pooled property investment strategy of UBS and generate premium returns commensurate with their investment cycle and strategy. A total of £30 million has been committed and fully drawn down by the manager. AEW looks to build diversified portfolios of small lot commercial properties. Lot size is typically in the £3-5m range. Properties are located all over the UK with negligible exposure to London. The Manager seeks to find properties that are well located and subject to strong tenant demand. The Manager looks to add significant value through asset management e.g. re-positioning, refurbishing properties at lease expiry and has a bias to shorter leases because of the greater asset management opportunities that can arise.

GMO diversified growth fund manager was appointed in October 2014. The Manager aims to deliver strong real returns across a full market cycle while preserving capital. GMO adopts a longer term perspective than many of its peers and allocates to undervalued and often unpopular asset markets; this can and does lead to a more idiosyncratic performance record at odds with the general performance of peers. The approach is valuation-based and anchored in 7-year investment projections. Their portfolio construction style is to be prepared to tolerate periods of modest returns, waiting to pounce on opportunities that present the chance to generate outsized returns.

JP Morgan mandate, a corporate bond portfolio has been in place for just over 4 1/2 years and investments with the manager were switched from Strategic Bond Fund to the Global Bond Opportunities Fund, with higher rate of returns and same level of fees. The investment objective of the new fund is to achieve a return in excess of benchmark by investing in an unconstrained portfolio of debt securities and currencies, using financial derivative instruments where appropriate.

Kempen's appointment was based on the same strategy employed with Newton, but has a slightly different style bias to the latter. Again, their strategy is predominantly geared towards income generation through high dividend payments with possible deficit in "members Dealings" payments/receipts redress the main motive for their appointment. The Manager aims to deliver a superior return to the world equity market by focusing on those companies that have a proven record of dividend generation and where that experience is expected to persist. The key metrics are valuation, dividend sustainability and capital discipline (in company managements). Free cash flow is preferred to earnings ratios. Stocks bought must have a minimum yield (3.3%) and stocks which see their sustainable yield fall below 3% will be sold. The portfolio comprises 100 equally weighted stocks, rebalancing takes place quarterly. The Council has disinvested from Kempen in June 2016 and consolidated into the Newton mandate.

M&G - The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value. The fund was set up to provide medium to long term debt financing to mid-cap UK companies with strong business fundamentals that are facing difficulties refinancing existing loans in the bank market. As at the end of March 2016, all three invested funds were fully drawn down. The pension fund is already in receipt of returns on investment from the first two funds and this should accelerate over the next year as they mature.

Macquarie - The allocation to infrastructure is likely to take a number of years before it is fully in place. The mandate spans four regional funds – Europe, China, India and the US. Macquarie tends to pursue large scale projects often directly operating the assets invariably in partnership with local asset owners, wealthy individuals.
Since Inception of the portfolio, progress has been steady with allocation to the India and China funds fully drawdown. The European partnership fund is about 75% drawn down with more allocation confirmed in the last few months. MIPIII, the American offering has made drawdown totalling about 22% of committed Capital.

Newton was appointed in January 2013 with a view of generating income through their Global Higher Income Strategy. This was in anticipation of the possible scenario of Pension Payable in excess of contributions from members. The Dividend stream from this investment will then be utilised to balance the payments from "member's dealings", without the need to liquidate ant assets. The Manager seeks to deliver added value from investing in stocks which have a robust and premium yield. At purchase, stocks must have a yield at least 25% above the prevailing market yield. From the eligible subset, stocks are selected along a range of thematic lines e.g. those that should benefit from deleveraging within the broader economy. The Manager adopts an unconstrained approach to stock selection; this will lead to substantial variance against the world equity index over shorter time periods. The fund have increased the total investments managed by Newton from consolidating the global equities income manage into one, disinvesting from Kempen in June 2016.

Permira were appointed in November 2014 and aims to deliver a superior return from lending directly to corporate borrowers. The Manager will generally lend on a fully secured basis although may lend sparingly on a weaker basis. To augment the lending rate, Permira will generally secure arrangement fees in respect of each loan advanced. The manager will normally secure strong position or fully control the board of most companies it lends money. In June 2016 Pension Committee agreed to invest in a second direct lending strategy with Permira which is yet to be committed.

Private equity is an illiquid asset with a long-term horizon. The Fund has approximately 3.8% of assets invested in private equity; the assets are split between Adams Street Partners which is based in the US, and Liechtenstein Global Trust Capital Partners (LGT) which operates out of the Switzerland. Both managers invest globally. Within each manager, private equity assets are spread across several funds launched in different years in order to provide time diversification. The majority of the investments will be returned over the next three to five years.

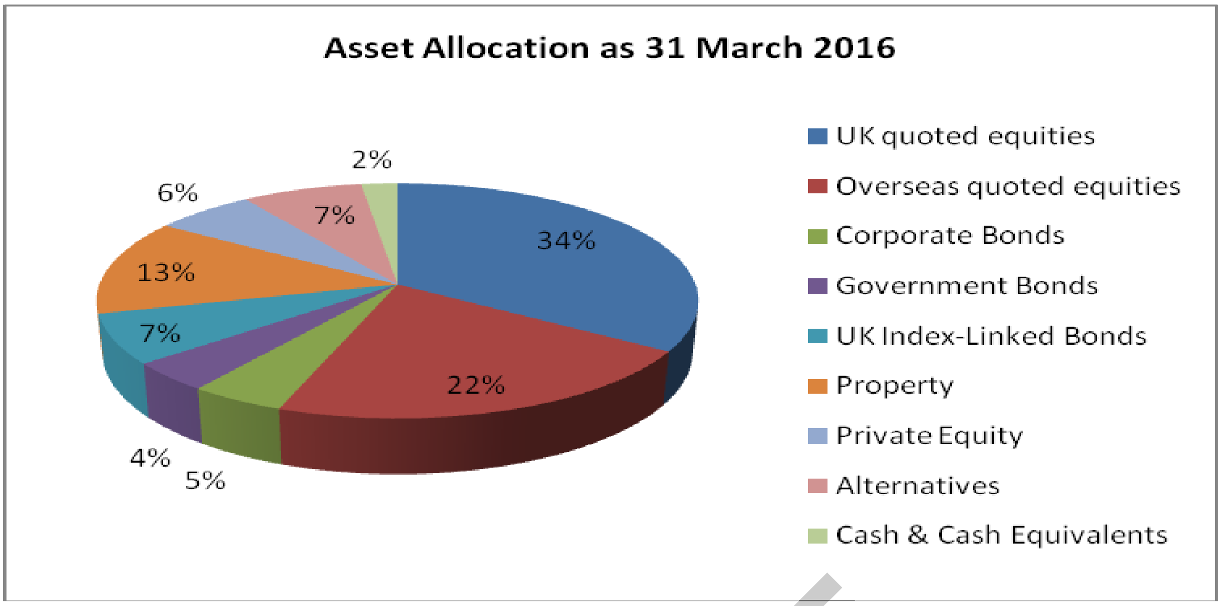
Ruffer is an Absolute Return manager and the Manager has two goals: not to lose money on a rolling 12 month basis and to grow funds at a rate higher than would be achieved by depositing in cash. The asset allocation is driven by two selections: those investments likely to deliver the required growth over the longer term (‘Greed’ assets) and those which should rise in response to conditions under which the Greed assets lose value (‘Fear’ assets). Historically Fear and Greed weightings have been broadly comparable. Under the new pooling of investments requirement, the Council's mandate with Ruffer transferred in July 2016 to assets under management by the London Collective Investment Vehicle (LCIV) as a consolidated mandate with Ruffer, where the Council benefits from reduced fees.

State Street (SSgA) manages fund assets on a passive basis. Its aim is to capture benchmark returns by replicating the indices backing the assets included in its mandate and during the year it has achieved this goal consistently.

UBS manages UK equities using a value approach to stock selection. The manager's core belief is that success will come from adopting a robust investment and valuation approach applied consistently across the economic and stock market cycles.

UBS Property - The property mandate managed by UBS operates a fund of funds Uk property structure. The Manager has full discretion to invest in both its own in-house pooled property fund and those of other third party fund managers. The aim is to keep the portfolio investments diversified, thus mitigating concentration risks.

Fund Value and Asset allocation as at 31 March 2016 - At 31 March 2016 the total value of the pension fund investment assets and liabilities was £808,650k. The following diagram identifies the allocation by asset class:



Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity investments during the year. The table below shows the total of investment assets and liabilities held by each manager as at 31 March 2016.

INVESTMENT MANAGER	as at 31 March 2016		as at 31 March 2015	
	£'000	%	£'000	%
Adams Street	21,836	2.70	24,508	3.06
AEW UK	36,093	4.46	32,123	4.02
GMO	62,041	7.67	65,729	8.22
JP Morgan	36,603	4.53	38,447	4.81
Kempen	87,317	10.80	87,276	10.91
LGT	12,872	1.59	13,924	1.74
M&G	39,151	4.84	35,312	4.42
Macquarie	19,805	2.45	13,934	1.74
Newton	30,395	3.76	27,173	3.40
Permira	20,634	2.55	4,029	0.50
Ruffer	92,836	11.48	94,758	11.85
State Street (SSgA)	179,997	22.26	161,566	20.20
UBS Equities	97,886	12.11	104,844	13.11
UBS Property	71,184	8.80	64,119	8.02
UBS TAA	-	-	32,018	4.00
Total	**808,650**	**100.00**	**799,760**	**100.00**

Note: Includes other transition assets, pending trades and recoverable tax.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), Schedule 1, sets out the legal requirements which apply to investments of the Fund and place restrictions on investments. Such restrictions, which are detailed within this report, are routinely monitored to ensure compliance. The largest five holdings in the fund as at 31 March 2016 were:

Top 5 Holdings	Market Value as at 31 March 2016 £000s	Percentage of Fund Value
Kempen Intl Fds Global High Dividend I GBP	87,317	10.80%
SSgA MPF Equity Index	69,970	8.65%
GMO Funds GBL Real Rtn Ucits Grruf A	62,041	7.67%
JP Morgan Strategic Bond X Accumulation Shares	36,603	4.53%
AEW UK Investment Management LLP AEW UK Core Property Fund A	36,093	4.46%

The largest 10 directly held equity holdings were as follows:

Top 10 Directly Held Equity Holdings	Market Value as at 31 March 2016 £000s	Percentage of Fund Value
Bp Ord Usd0.25	8,625	1.07%
Royal Dutch Shell 'B'ord Eur0.07	7,671	0.95%
Glaxosmithkline Ord Gbp0.25	5,096	0.63%
Hsbc Hldgs Ord Usd0.50(Uk Reg)	4,478	0.55%
Lloyds Banking Gp Ord Gbp0.1	4,011	0.50%
Barclays Plc Ord Gbp0.25	3,960	0.49%
Rio Tinto Ord Gbp0.10	3,710	0.46%
Glencore Plc Ord Usd0.01	3,626	0.45%
3i Group Ord Gbp0.738636	3,594	0.44%
Bae Systems Ord Gbp0.025	3,427	0.42%

Investment Performance

Over the financial year under review, the fund grew by 1.63% equating to 17 basis points ahead of the benchmark figure of 1.46%. For a 3 year period to 31 March 2016, the fund has outperformed with a return, exceeding the benchmark by 0.31% pa. Also, since inception in September 1995 the returns come to 6.71%, 9 basis points better than the benchmark.

Performance	1 Year			3 Year			Since Inception		
Asset Class	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**	**Fund**	**B' mark**	**+/-**
UK Equity	(4.73)	(3.92)	(0.81)	5.12	3.67	1.45	6.57	6.79	(0.22)
Overseas Equity	(1.21)	(0.58)	(0.63)	4.56	8.34	(3.78)	5.95	6.92	(0.97)
Government Bonds	3.26	3.25	0.01	(1.44)	4.65	(6.09)	2.66	6.66	(4.00)**
Corporate Bonds	0.43	0.50	(0.07)	4.81	4.89	(0.08)	7.38	7.06	0.32**
Index Linked Gilts	2.40	1.74	0.66	5.19	5.08	0.11	7.98	8.60	(0.62)**
Property	15.12	10.58	4.54	15.43	13.00	2.43	8.79	8.11	0.68
Total Portfolio	**1.63**	**1.46**	**0.17**	**6.27**	**5.96**	**0.31**	**6.71**	**6.62**	**0.09**

Note: 5 Yrs Performance returns as no longer term data available

Over the year, on investment performance, there was a relative excess return of 0.17% The biggest contributor to the excess return was Macquarie with 18.37% outperformance, whilst the biggest detractor was GMO with (6.20)% underperformance. Overall, three year and since inception performance figures were 0.31% and 0.09% respectively above the set benchmarks.

Performance	1 Year			3 Year			Since Inception		
Manager	Fund	B' mark	+/-	Fund	B' mark	+/-	Fund	B' mark	+/-
Adams Street	11.33	-	-	15.68	-	-	5.41	-	-
AEW UK	12.66	10.58	2.08	-	-	-	14.04	12.90	1.14
GMO	(5.63)	0.57	(6.20)	-	-	-	(2.98)	0.18	(3.15)
JP Morgan	1.06	3.60	(2.54)	2.09	3.57	(1.48)	3.27	3.64	(0.37)
Kempen	0.05	2.22	(2.17)	4.39	11.53	(7.15)	6.06	13.45	(7.39)
LGT Capital	25.66	-	-	12.26	-	-	9.54	-	-
Macquarie	21.95	3.58	18.37	10.21	3.56	6.65	0.92	3.68	(2.76)
M&G	3.49	4.58	(1.09)	5.79	4.56	1.23	5.36	4.69	0.67
Newton	11.86	1.44	10.42	10.03	10.30	(0.27)	12.18	11.95	0.24
Permira	12.41	4.58	7.83	-	-	-	10.36	4.47	5.89
Ruffer	(2.12)	0.59	(2.70)	3.42	0.55	2.87	5.48	0.68	4.80
SSgA	(2.16)	(2.13)	(0.03)	5.17	5.24	(0.07)	10.65	10.65	0.00
UBS Equities	(6.61)	(3.92)	(2.69)	4.86	3.67	1.19	9.56	8.49	1.07
UBS Property	16.11	10.58	5.53	15.46	13.00	2.46	3.72	3.37	0.35
Total Portfolio	**1.63**	**1.46**	**0.17**	**6.27**	**5.96**	**0.31**	**6.71**	**6.62**	**0.09**

Custody

The Northern Trust Company acts as the global custodian of the Funds' assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, securities lending, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Funds requirements.

Responsible Investing

The Fund supports the principle of socially responsible investment within the requirements of the law and the need to give high priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Fund will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers’ discretion as to which investments to make will not normally be overridden by the Pensions Committee, except on the basis of written information from other advisers.

Whilst the Pensions Committee maintain an awareness of socially responsible investment in the context of investment strategy, the Committee is committed to obtaining the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

It is the Fund's policy to be an active shareholder. Where the Pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Fund's policy is that that all proxies are to be voted where practically possible. Fund Managers' rights to vote on behalf of the Fund are subject to conforming to the overall guidance set out in the Statement of Investment Principles and the prevailing regulations. The Pension Committee may feel strongly on certain policies and may advise managers how to execute their votes. Fund manager voting and engagement in terms of Corporate Governance and Socially Responsible Investment are discussed with the Fund Managers and reported to Committee on a quarterly basis. Further information regarding voting guidelines, responsible investment and compliance with Myners' principles are included within the Statement of Investment Principles.

The Council supports the Stewardship Code issued by the Financial Reporting Council. In practice the Fund's policy is to apply the code through its fund managers. In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

REPORT OF THE FUND ACTUARY

London Borough of Hillingdon Pension Fund ("the Fund")
Actuarial Statement for 2015/16

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 21 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £683 million, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £266 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2014.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	3.30%	0.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.7 years	24.7 years
Future Pensioners*	24.3 years	26.9 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Hillingdon, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen placing a higher value on liabilities. The effect of this has been only partially offset by the effect of stronger than assumed asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Catherine McFadyen

Catherine McFadyen FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
15 April 2016

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

SCHEME ADMINISTRATION REPORT

Administrators

Administration of the scheme is currently outsourced to Capita Employee Benefits (CEB) who are responsible for:

- Administering the LGPS on behalf of London Borough of Hillingdon as an Employing Authority in accordance with relevant legislation and Committee decisions;
- Administering the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions;
- Providing advice to scheme members and external scheme Employers on options available under the Council's Pension Scheme; and
- Exploiting information technology to improve service standards and efficiency.

CEB deals with contributing members of the LGPS with London Borough of Hillingdon, the main areas of work cover the collecting, and reconciling of pension of contributions, transfers of pension rights in to and out of the LGPS and deferred benefits; and with pensioners in respect of payment of pensions, and calculations of retirements, re-employment, death benefits As well as redundancy and compensation benefits for non-teaching employees.

The performance of CEB is reported quarterly to both Committee and the Board. Performance is also monitored on a daily basis by pension's officers of London Borough of Hillingdon. All LGPS funds measure performance against key industry performance indicators. Targets are set and agreed at the start of each year. Pensions Committee receive a quarterly report on performance which addresses any concerns in relation to performance. The table below details CEB's performance against target for the year to 31 March 2016.

Performance Indicator	Hillingdon Target	2014/15 Performance %	2015/16 Performance %
Letter detailing transfer in quote	10 days	82.56	89.05
Letter detailing transfer out quote	10 days	73.68	88.56
Process refund & issue payment	5 days	54.38	89.63
Letter notifying estimate of benefit	10 days	45.24	91.01
Letter notifying actual benefit	5 days	98.82	96.00
Letter acknowledging death	5 days	25.55	80.11
Letter notifying amount of dependant's benefit	5 days	70.83	90.63
Calculate & notify deferred benefits	10 days	47.65	86.92

Performance on reportable events improved over the 2015/16 year, but other areas of administration were not delivered at an unacceptable level. The Annual Benefit Statement exercise was an example of poor performance and resulted in Capita having to report themselves to the Pensions Regulator for non-compliance with the Pensions Act. Continued weekly monitoring of Capita's performance is ongoing.

The pensions administration service at CEB can be contacted by telephoning 0208 338 7055 or by email to hillingdon.pensions@capita.co.uk. Information about the LGPS and Capita Employee Benefits can be found on Capita's website at www.mylgpspension.co.uk

The contract with CEB is currently on notice of termination and is due to cease on 31 October 2016. From 1 November 2016 the administration of the scheme will be undertaken by Surrey County Council under powers delegated to them by Hillingdon Council. A project to manage the transfer has been underway since late last year and Surrey and Hillingdon internal officers have been working collaboratively to significantly improve the quality of the data being transferred. Progress on the transfer is on track and updates are provided each quarter to Committee.

Review of 2015/16

The latest available Government SF3 statistics (for 2014/15) indicate the cost per member for all English Authorities was £24.98 compared with an outer London average of £49.00 per scheme member. The cost in 2015/16 for the London Borough of Hillingdon was £29.93, (a decrease of £0.29 per member when compared with last year). Despite the continued increase in the number of scheme members, the administration costs have maintained a below average "cost per member" when compared to all outer London Boroughs.

Early Retirement

The total number of scheme members who retired on the grounds of redundancy or efficiency of the service is given below, together with the number of scheme members who retired on the grounds of permanent ill health. The figures are as at 31 March of each year.

Type of Retirement	2011/12	2012/13	2013/14	2014/15	2015/16
Redundancy or Efficiency	65	23	50	23	19
Ill Health	12	6	3	8	6
Total	**77**	**29**	**53**	**31**	**25**

Complaints

The Council's Complaints procedure is available to any person who wishes to make a suggestion or complaint about the Service. Details of individual complaints along with the overall number of complaints are reported each year. There is also a two stage statutory Independent Dispute Resolution Procedure within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Operations Manager at CEB and at stage two to the Corporate Pensions Manager.

RISK MANAGEMENT

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS and is part of the ongoing decision making process of Committee. By identifying and managing risks the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

A risk report, including the latest risk register and showing the status and direction of each risk, is maintained and updated regularly and reported to Pension Committee on a quarterly basis. The key types of risk facing the Fund are explained briefly below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement.

Key Risk 1 – Financial Risks - a team of experienced officers and advisors support the Pensions' Committee who ensure the monitoring of all financial risks for impact. The financial risks cover all aspects of the Fund's investment strategy, the impact of changes on the returns on investments, the impact of active manager performance, and the impact of pay and price inflation. Currently only the risk of the Fund's investment returns failing to match arising liabilities is reported corporately to the Council.

Key Risk 2 – Demographic Risks - The risk of pensioners living longer is the key risk in this area. Active monitoring of retirement patterns allow additional employer contributions to be requested if required.

Key Risk 3 – Regulatory Risks - Changing regulations remain a long-term risk to the fund; however, Hillingdon fully participates in consultation exercises where their influence can impact on this risk.

Key Risk 4 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and future changes to the officer support to the Fund will help further mitigate these risks.

FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

   The Council is required to:

   - Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Corporate Director of Finance;
   - Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
   - Approve the Pension Fund of Accounts

2. Corporate Director of Finance Responsibilities

   The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

   In preparing this statement of accounts the Corporate Director of Finance has:

   - Selected suitable accounting policies and then applied them consistently;
   - Made judgements and estimates that were reasonable and prudent; and
   - Complied with the Local Authority Code.

   The Corporate Director of Finance has also:

   - Kept proper accounting records that were up to date; and
   - Taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Corporate Director of Finance Approval of Pension Fund Accounts

   I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon Pension Fund, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31 March 2016 and its income and expenditure for the year then ended.

Paul Whaymand

CORPORATE DIRECTOR OF FINANCE
September 2016

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 21 September 2016.

Cllr Philip Corthorne
Signed on behalf of London Borough of Hillingdon Pension Fund
CHAIRMAN (PENSION COMMITTEE)

Independent auditor's report to the members of London Borough of Hillingdon

Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of Responsibilities set out on page 10, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Tim Sadler
Executive
Director

for and on behalf of Ernst & Young LLP
Southampton

September 2016

London Borough of Hillingdon Pension Fund

Statement of Accounts for the year to 31 March 2016

DRAFT

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Pension Fund Accounts and Net Asset Statement

	Note	31 March 2016 £000's	31 March 2015 £000's
Contributions	*4*	39,268	37,383
Transfers In from other pension funds	*5*	2,744	1,164
Less: Benefits	*6*	(39,776)	(34,448)
Less: Leavers	*7*	(2,700)	(1,365)
Less: Management expenses	*8*	(6,353)	(6,834)
Net additions/(withdrawals) from dealings with members		**(6,817)**	**(4,100)**
Investment income	*9*	15,511	16,887
Profit and losses on disposal of investments and changes in value of investments	*10*	(707)	62,982
Taxes on income		0	(5)
Net return on investments		**14,804**	**79,864**
Net Increase in the fund during the year		**7,987**	**75,764**
Net Assets at start of year		**802,300**	**726,536**
Net Assets at end of year		**810,287**	**802,300**

	Note	31 March 2016 £000's	31 March 2015 £000's
Investment Assets	*10*	808,967	800,969
Investment Liabilities	*11*	(317)	(1,209)
Current Assets	*12*	2,073	3,191
Current Liabilities	*13*	(436)	(651)
TOTAL NET ASSETS		**810,287**	**802,300**

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Pension Fund Annual Report and these accounts should be read in conjunction with this.

Paul Whaymand
Corporate Director of Finance
September 2016

Notes To Pension Fund Accounts

1. DESCRIPTION OF THE FUND

a) General

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hillingdon ("the administering body"). The Council is the reporting entity for this pension fund. The fund is a contributory defined benefits scheme established in accordance with statute to provide benefits to members and retired members of the London Borough of Hillingdon and Admitted and Scheduled bodies in the fund. Benefits in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) scheme. Benefits in respect of past service up to 31 March 2014 are based on final salary. Pensions move in line with the Consumer Price index (CPI) annually. Benefits paid out include a pension payable to former members and their dependants, lump sum retirement benefits, payment of death benefits where death occurs in service or retirement, and early payment of benefits on medical grounds.

The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- LGPS (Miscellaneous Amendments) Regulations 2014
- LGPS (Administration) Regulations 2008
- LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make thier own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

Employers who contribute to the fund in adition to London Borough of Hillingdon are :

Admitted Bodies:

Greenwich Leisure
Heathrow Aviation Engineering
Heathrow Travel Care
Hillingdon & Ealing Citizens Advice
Mitie Cleaning (Transferred to Churchill)
Mitie Facilities Management
Servest Group Ltd
Taylor Shaw (Caterlink, Caterplus & Genuine Dining)

Scheduled Bodies:

Barnhill Academy
Belmore Academy
Bishop Ramsey Academy
Bishopshalt Academy
Charville Academy
Coteford Academy
Cranford Park Academy
Douay Martyrs Academy
Eden Academy
Guru Nanak Sikh Academy
Harefield Academy
Haydon Academy
Hillingdon Primary School
John Locke Academy
Lake Farm Park Federation
LBDS Frays Academy Trust
London Housing Consortium
Nanak Sar Primary School
Northwood Academy
Pentland Field School
Pinkwell School
Queensmead Academy
Rosedale Hewens Academy
Ruislip High School
Ryefield Primary School
Skills HUB
Stockley Academy
Swakeleys Academy
Uxbridge Academy
Uxbridge College
Vyners Academy
Willows Academy
Wood End Academy
Young Peoples Academy

Notes To Pension Fund Accounts

1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2016 there were 8,267 active employees contributing to the fund, with 6,244 in receipt of benefit and 6,658 entitled to deferred benefits.

London Borough of Hillingdon Pension Fund	31 March 2016	Updated 31 March 2015
Number of employers with active members	43	40
Number of employees in scheme		
London Borough of Hillingdon	5,307	5,796
Other employers	2,960	2,237
Total	**8,267**	**8,033**
Number of Pensioners		
London Borough of Hillingdon	5,461	5,566
Other employers	783	514
Total	**6,244**	**6,080**
Deferred Pensioners		
London Borough of Hillingdon	4,600	5,541
Other employers	2,058	510
Total	**6,658**	**6,051**

c) Funding

The fund is financed by contributions from the employers, pension fund members and by income from the fund's investments. The pension fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

d) Investments

The pension fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, GMO Investments, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investments, Newton Asset Management, Permira LLP, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition, there are two direct investments into pooled funds with M&G Investments.

e) Governance

The fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee and governance is overseen by the Pensions Board. Pensions Committee and Pensions Board consisted of the following members in 2015/16:

Pensions Committee

Cllr Philip Corthorne (Chairman)
Cllr Michael Markham (Vice-Chairman)
Cllr Peter Davis
Cllr Tony Eginton
Cllr Beulah East

Pensions Board

Cllr David Simmonds (Chairman)
Cllr Alan Chapman (Vice-Chairman)
Mr Andrew Scott (Member Representative)
Cllr John Morse
Venetia Rogers (Member Representative)
Roger Hackett (Member Representative)

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis and summarise the funds income and expenditure for 2015/16 and its position as at 31 March 2016.

3. ACCOUNTING POLICIES

a) Valuation of assets
- Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.
- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.
- For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used.
- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

All assets are disclosed in the financial statements at their fair value.

b) Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the net assets statement. Overseas income is converted at rates of exchange ruling when remitted.

c) Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accruals basis.

d) Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accruals basis.

e) Administration expenses are paid when invoiced by third party providers through the administrating authority's payment system and recharged to the Pension fund.

f) Interest on property developments
- Property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

g) Contributions are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

h) Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

i) Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient. Group transfers are accounted for under the agreement which they are made.

j) Cash & Cash Equavalents: Cash and cash equvalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA

k) Investment Income - Dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

Critical Judgements and Uncertainties

l) Unquoted Alternative Investments - Fair value of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2016 was £109,712k (£86,637k at 31 March 2015 (Revised)).

NB: 2014/15 figures above have been revised from those published in the 2014/15 accounts to include Macquarie, M&G and Permira holdings

m) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £30,082k. There is a risk that this investment may be under- or overstated in the accounts.

3. ACCOUNTING POLICIES (CONTINUED)

Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure - Macquarie Infrastructure Real Assets	Infrastructure Valuation represents the fair value of investments held at 31 March 2016. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure alternative investments in the financial statements are £19,805k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Item	Uncertainties	Effect if actual results differ from assumptions
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.	The total private finance investments in the financial statements are £39,150k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £20,634k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilties and an increase in assumed life expectancy would increase the liability.

Notes To Pension Fund Accounts

4. CONTRIBUTIONS

	31 March 2016 £000's	31 March 2015 £000's
Employers		
Normal	25,118	23,621
Deficit Funding	4,768	4,576
Members		
Normal	8,370	8,410
Additional Contributions	1,012	776
	39,268	**37,383**

Deficit Funding: At the actuarial valuation on 31 March 2013 the fund was 72% funded, with the remaining 28% deficit to be recovered over a period of 25 years with a common contribution rate of 28.7%.

Schedule of contributions by body	31 March 2016 £000's	31 March 2015 £000's
Employers		
LB Hillingdon	21,866	20,827
Scheduled Bodies	7,700	7,081
Admitted Bodies	320	289
Members		
LB Hillingdon	7,216	7,151
Scheduled Bodies	2,068	1,938
Admitted Bodies	98	97
	39,268	**37,383**

5. TRANSFERS IN

	31 March 2016 £000's	31 March 2015 £000's
Individual transfers in from other schemes	2,744	1,164

6. BENEFITS

	31 March 2016 £000's	31 March 2015 £000's
Pensions	(31,597)	(29,862)
Commutations and Lump Sum Retirement Benefits	(7,598)	(4,521)
Lump Sum Death Benefits	(581)	(65)
	(39,776)	**(34,448)**
Schedule of benefits by employer		
LB Hillingdon	(38,969)	(33,985)
Scheduled Bodies	(701)	(416)
Admitted Bodies	(106)	(47)
	(39,776)	**(34,448)**

Notes To Pension Fund Accounts

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2016 £000's	31 March 2015 £000's
Individual transfers out to other schemes	(2,700)	(1,365)
	(2,700)	**(1,365)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the fund for the period ending 31 March 2016 as follows:

	31 March 2016 £000's	31 March 2015 £000's
Administrative Costs	(570)	(534)
Investment Management Expenses	(5,338)	(5,995)
Oversight and Governance	(445)	(305)
	(6,353)	**(6,834)**

The above analysis of the costs of managing the London Borough of Hillingdon Pension Fund has been prepared in accordance with the CIPFA guidance on LGPS management costs.

9. INVESTMENT INCOME

	31 March 2016 £000's	31 March 2015 £000's
Dividends from equities	5,915	6,672
Income from fixed interest securities	0	107
Income from index-linked securities	307	205
Income from pooled investment vehicles	4,345	1,833
Interest on cash deposits	88	83
Other (for example from stock lending or underwriting)	4,856	7,987
	15,511	**16,887**

10. INVESTMENT ASSETS

	Value 1 April 2015 £000's	Purchases at cost £000's	Sales proceeds £000's	Change in market value £000's	Value 31 March 2016 £000's
Equities	136,322	25,428	(24,919)	(13,232)	123,599
Index-linked securities	64,834	6,087	(37,691)	1,668	34,898
Pooled investment vehicles	570,033	116,617	(61,227)	6,771	632,194
	771,189	**148,132**	**(123,837)**	**(4,793)**	**790,691**
Other investment balances	913			3,806	980
Fund managers' cash	28,867			280	17,296
Total Investment Assets	**800,969**			**(707)**	**808,967**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments. The carrying amount of all assets is quoted at fair value.

10. INVESTMENT ASSETS (CONTINUED)

Investment Assets and Liabilities by Fund Manager

Fund Manager	Market Value 31 March 2016 £000's	Market Value 31 March 2015 £000's
Adams Street Partners	19,195	22,988
AEW UK	36,094	24,623
GMO	62,041	65,729
JP Morgan Asset Management	36,603	38,447
Kempen International Investments	87,317	87,276
LGT Capital Partners	10,887	12,769
M&G Investments	39,150	32,965
Macquarie Infrastructure	19,805	13,886
Newton Asset Management	30,395	27,173
Permira Credit Solutions	20,634	4,029
Ruffer LLP	92,546	94,758
State Street Global Advisors	179,997	161,566
UBS Global Asset Management (Equities	97,271	104,844
UBS Global Asset Management (Property	71,112	64,119
UBS TAA	0	31,742
Other*	5,603	12,846
Total	**808,650**	**799,760**

* Other includes pending trades, accrued income and cash held in Custody accounts, independent of Fund managers not mandated to hold cash.

Forward Foreign Exchange Contracts

Counterparty and Currency	Bought £000's	Sold £000's	Unrealised Change £000's	Trade Date	Settle Date
Northern Trust GBP - JPY	5,862	(6,227)	(364)	07/01/2016	15/04/2016
Northern Trust GBP - JPY	2,283	(2,309)	(26)	17/02/2016	15/04/2016
Northern Trust GBP - USD	22,111	(22,018)	92	17/02/2016	13/05/2016
Northern Trust GBP - EUR	852	(871)	(19)	14/03/2016	17/06/2016
Total unrealised loss	**31,108**	**(31,425)**	**(317)**		

As at 31 March 2016 four forward foreign exchange contracts were in place for £31,425k with unrealised loss of £317k. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement in the underlying asset value if converted into sterling.

Investment Assets by Asset Class	31 March 2016 £000's	31 March 2015 £000's
Equities		
UK Quoted	98,337	108,883
Overseas Quoted	25,262	27,439
	123,599	**136,322**
Index Linked Securities		
UK Public Sector Quoted	18,026	17,642
Overseas Public Sector Quoted	16,871	47,192
	34,897	**64,834**
Pooled Investment Vehicles		
UK Managed Funds - Other	384,421	351,510
UK Unit Trusts Property	106,369	87,738
Overseas Unit Trusts - Other	111,282	95,028
Private Equity	30,123	35,757
	632,195	**570,033**
Other Investment balances		
Amount due from brokers	0	3
Outstanding dividend entitlements and recoverable withholding tax	980	910
	980	**913**
Cash deposits		
Sterling	17,296	28,867
	17,296	**28,867**
	808,967	**800,969**

NB: There are no investments that are more than 5% of the Net Asset Value

10. INVESTMENT ASSETS (CONTINUED)

AVC Investments

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

According to information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2016 was £5,937k (£6,488k at 31 March 2015) and £246k was received in additional voluntary contributions by members. Any transfer of additional contributions into the fund during the year are included in the employee contributions value as detailed in note 4.

11. INVESTMENT LIABILITIES

	31 March 2016 £000's	31 March 2015 £000's
Amount outstanding to brokers	0	(463)
Forward foreign exchange unrealised loss	(317)	(746)
	(317)	**(1,209)**

12. CURRENT ASSETS

	31 March 2016 £000's	31 March 2015 £000's
Employers' contributions due	364	391
Employees' contributions due	100	111
Debtor: London Borough of Hillingdon	30	0
Cash balances	1,579	2,689
	2,073	**3,191**

NB: Current assets all relate to amounts due from local government bodies with the exception of cash balances which are held with bodies external to government.

13. CURRENT LIABILITIES

	31 March 2016 £000's	31 March 2015 £000's
Creditor: Other Entities	(436)	(394)
Creditor: London Borough of Hillingdon	0	(257)
	(436)	**(651)**

NB: The £436k total of other entities is due to bodies external to government, namely investment managers.

Notes To Pension Fund Accounts

14. FINANCIAL INSTRUMENTS

a) Analysis of Investments

Investment Assets	31 March 2016 £000's	31 March 2015 £000's
Fixed Interest Securities	34,898	57,833
Equities	123,599	136,322
Pooled Investments	475,897	439,607
Pooled Property Investments	106,369	87,743
Private Equity/Infrastructure	49,928	49,684
Cash	17,296	28,867
Investment Income Due	980	910
Amounts Receiveable For Sales	0	3
	808,967	800,969
Investment Liabilities		
Derivative Contracts	(317)	(746)
Amounts Payable for Purchases	0	(463)
	(317)	(1,209)
	808,650	**799,760**

b) Net Gains and Losses on Financial Instruments

Financial Assets	31 March 2016 £000's	31 March 2015 £000's
Realised Fair Value through profit and loss	16,287	16,602
Unrealised Fair Value through profit and loss	(16,677)	47,126
Financial Liabilities		
Unrealised Fair Value through profit and loss	(317)	(746)
	(707)	**62,982**

c) Fair Value of Financial Assets and Liabilities through Profit & Loss

	Designated as fair value through P&L	Loans & receivables	Total	Designated as fair value through P&L	Loans & receivables	Total
	31 March 2016 £000's	31 March 2016 £000's	31 March 2016 £000's	31 March 2015 £000's	31 March 2015 £000's	31 March 2015 £000's
Financial Assets						
Fixed Interests Securities	34,898	0	34,898	57,833	0	57,833
Equities	123,599	0	123,599	136,322	0	136,322
Pooled Investments	582,266	0	582,266	527,350	0	527,350
Private Equity/Infrastructure	49,928	0	49,928	49,684	0	49,684
Cash	0	17,296	17,296	0	28,867	28,867
Other Investment balances	0	980	980	0	913	913
	790,691	**18,276**	**808,967**	**771,189**	**29,780**	**800,969**
Financial Liabilities						
Derivative Contracts	(317)	0	(317)	(746)	0	(746)
Creditors	0	0	0	(463)	0	(463)
	(317)	**0**	**(317)**	**(1,209)**	**0**	**(1,209)**
Total	**790,374**	**18,276**	**808,650**	**769,980**	**29,780**	**799,760**

Notes To Pension Fund Accounts

14. FINANCIAL INSTRUMENTS (CONTINUED)

d) Analysis of pricing hierarchies for assets carried at fair value

Values as at 31 March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Financial Assets	**Level 1 £000's**	**Level 2 £000's**	**Level 3 £000's**	**Total £000's**
Financial Assets at Fair Value through Profit and Loss	574,611	106,368	109,712	790,691
Loans and Receivables	18,276	0	0	18,276
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	(317)	0	0	(317)
At Amortised Cost	0	0	0	0
Net Financial Assets	**592,570**	**106,368**	**109,712**	**808,650**

Values as at 31 March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Financial Assets	**Level 1 £000's**	**Level 2 £000's**	**Level 3 £000's**	**Total £000's**
Financial Assets at Fair Value through Profit and Loss	596,836	87,716	86,637	771,189
Loans and Receivables	29,780	0	0	29,780
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	(746)	0	0	(746)
At Amortised Cost	(463)	0	0	(463)
Net Financial Assets	**625,407**	**87,716**	**86,637**	**799,760**

Fair values shown in the tables above are split by their level in the fair value pricing hierarchy:

Level 1 - Fair value is only derived from unadjusted quoted prices in active markets at the valuation date, for identical assets or liabilities, e.g equities or bonds.

Level 2 - Fair value is calculated from observable inputs for the assets or liabilities, rather than unadjusted quoted prices, e.g pooled property vehicles

Level 3 - Fair value is determined using unobservable inputs for assets and liabilities, e.g private equity.

There was a transfer of £41k in Venture Capital Investments with UBS Asset Management from Level 1 to Level 3 in line with the pricing hierarchy of the investment.

14. FINANCIAL INSTRUMENTS (CONTINUED)

Level 3 Pricing Hierarchy Disclosures
Quantitaive Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital
The significant unobservable inputs used in the fair value measurement of privately held securities are: Revenue multiples, EBITDA multiple, net income multiple and discount for lack of markeability and potential bids.

Private Finance: M&G
The assets are mostly floating rate notes and held at par value.

Infrastructure: Macquarie
The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets.
- The acquistion financial model is used as a base case.
- Update for any material changes in economic, operational and financial assumptions.
- Discount equity cashflows at the sum of the risk free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira
The following key terms are confirmed as inputs for each yield analysis calculation:
- Cash / PIK (Payment In Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

Level 3 Assets Reconciliation						
	Value 1 April 2015 £000's	**Purchases at cost £000's**	**Sales proceeds £000's**	**Transfer between Levels**	**Change in market value £000's**	**Value 31 March 2016 £000's**
Private Equity - Adams Street Partners & LGT Capital Partners	35,757	1,201	(4,901)	0	(1,975)	30,082
Private Finance - M&G	32,965	7,274	(2,291)	0	1,202	39,150
Infrastructure - Maquarie	13,886	3,450	(706)	0	3,175	19,805
Venture Capital - UBS	0	0	0	41	0	41
Direct Lending - Permira	4,029	15,173	0	0	1,432	20,634
	86,637	**27,098**	**(7,898)**	**41**	**3,834**	**109,712**
Other investment balances	0				0	0
Total Investment Assets	**86,637**				**3,834**	**109,712**

Description of Valuation Process

Private Equity
The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair values by the Board of Directors. Private equity valuations are usually generated by the managers of the underlying portfolio of investments on a quarterly basis and are actually received with a delay of at least one-to-two months after the quarter end date. As a result, the year-end net asset value predominantly consists of portfolio valuations provided by the investment managers of the underlying funds at a specific date, adjusted for subsequent capital calls and distributions. If the Board of Directors comes to the conclusion upon recommendation of the Investment Manager (after applying the above mentioned valuation methods), that the most recent valuation reported by the manager/administrator of a fund investment is materially misstated, it will make the necessary adjustments using the results of its own review and analysis. The valuation adjustments relate to events subsequent to the last capital account valuation statement received but based upon information provided by the investment manager and all other available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

Notes To Pension Fund Accounts

14. FINANCIAL INSTRUMENTS (CONTINUED)

Description of Valuation Process Contd:

Private Finance: M&G
These assets are floating rate and are held to maturity they are valued at par unless suffering from impairment. Impairments may be applied if an asset's credit rating deteriorates.

Direct Lending: Permira
- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that
- Each valuation is reviewed to ensure:

Third party evidence to support pricing (such as Markit data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;

That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

Infrastructure: Macquarie
Valuations are calculated by the individual asset teams on a quarterly basis. The valuation process follows the British Venture Capital Association (BVCA) guidelines, and is compliant with International Financial Reporting Standards (IFRS). The most generally accepted methodology of valuing infrastructure assets is by way of a discounted cashflow (DCF) analysis.

DCF-Based Market Valuation Process

Financial Model
The acquisition financial models of all of the Fund's underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

Update for Economic, Operational and Financial Assumptions
The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

The initial operational assumptions in each of the financial models are the acquisition forecasts. Any historical information (e.g. distributions received in an intervening period and year to date performance) will be updated within the model. In relation to forward-looking assumptions, the acquisition assumptions will continue to be used unless there is a material inconsistency between these assumptions and:
- the actual operational results to date
- the revised forecasts provided by management or approved by the board.

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put
Discount Rate
Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk free rate. The acquisition internal rate of return is the return which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.
Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

Narrative and Quantitative description of sensitivity to changes in valuation methods and market

Private Equity
Market valuation method applied to investments is sensitive to four main components:
(i) changes in actual market prices;
(ii) interest rate risk;
(iii) foreign currency movements; and
(iv) other price risks.

Private Finance (M&G)
The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an anlalyst impairing an asset if there is a change in the asset's credit rating.

14. FINANCIAL INSTRUMENTS (CONTINUED)

Infrastructure: Macquarie
The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

Direct Lending: Permira

The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:
- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.

These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

15. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management
The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

Market risk
The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the pension fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

Other price risk
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer, or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy statement.

Notes To Pension Fund Accounts

15. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period.

Asset Type	Potential market movements (+/-)
UK quoted equities	10.56%
Overseas quoted equities	8.01%
UK Public Sector quoted Index-Linked Securities	8.43%
Overseas Public Sector quoted Index-Linked Securities	8.43%
Corporate Bonds	4.57%
UK Managed funds - other	10.56%
UK Unit Trusts - property	3.00%
Overseas Unit Trusts - other	8.01%
Private Equity/Infrastructure	4.86%

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on fund asset allocations. The potential volatilities are consistent with one standard deviation movement of the change in value of assets over the last three years. This can then be applied to period end asset mix.

Asset type	Value as at 31 March 2016 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Cash and Cash equivalents	17,296	0.01%	17,298	17,294
Investment Assets				
UK quoted equities	98,337	10.56%	108,721	87,953
Overseas quoted equities	25,262	8.01%	27,285	23,239
UK Public Sector quoted Index-Linked Securities	55,655	8.43%	60,347	50,963
Overseas Public Sector quoted Index-Linked Securities	16,871	8.43%	18,293	15,449
UK Managed funds - Equities	177,082	10.56%	195,782	158,382
UK Managed funds - Bonds	112,128	4.57%	117,252	107,004
UK Unit Trusts - property	106,369	3.00%	109,560	103,178
Overseas Unit Trusts - Equities	149,059	8.01%	160,999	137,119
Private Equity/Infrastructure	49,928	4.86%	52,355	47,501
Net Derivative assets	(317)	0.00%	(317)	(317)
Investment income due	980	0.00%	980	980
Amounts receivable for sales	0	0.00%	0	0
Amounts payable for purchases	0	0.00%	0	0
Total Assets Available to pay benefits	**808,650**		**868,555**	**748,745**

Asset type	Value as at 31 March 2015 £000's	Percentage Change %	Value on Increase £000's	Value on Decrease £000's
Cash and Cash equivalents	28,867	0.01	29,156	28,578
Investment Assets				
UK quoted equities	108,883	10.20	119,989	97,777
Overseas quoted equities	27,439	7.93	29,615	25,263
UK Public Sector quoted Index-Linked Securities	17,642	8.26	19,099	16,185
Overseas Public Sector quoted Index-Linked Securities	47,192	8.26	51,090	43,294
UK Managed funds - Equities	101,728	10.20	112,104	91,352
UK Managed funds - Bonds	67,314	4.10	70,074	64,554
UK Unit Trusts - property	87,738	3.16	90,511	84,965
Overseas Unit Trusts - Equities	223,217	7.93	240,918	205,516
Overseas Unit Trusts - Bonds	41,700	4.10	42,006	38,698
Private Equity/Infrastructure	49,684	4.57	51,955	47,413
Net Derivative assets	(746)	0.00	(746)	(746)
Investment income due	910	0.00	910	910
Amounts receivable for sales	3	0.00	3	3
Amounts payable for purchases	(463)	0.00	(463)	(463)
Total Assets Available to pay benefits	**801,108**		**856,221**	**743,299**

15. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk - The risk to which the pension fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	**31 March 2016 £000's**	**31 March 2015 £000's**
Cash	17,296	28,867
Fixed Interest Securities (Segregated)	72,526	64,834
Fixed Interest Securities (Pooled Funds)	112,128	109,014
Total	**201,950**	**202,715**

Interest Rate Risk Sensitivity Analysis
The fund recognises that interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

Asset Type	**Carrying amount 31 March 2016**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash	17,296	17,469	17,123
Fixed Interest Securities (Segregated)	72,526	73,251	71,801
Fixed Interest Securities (Pooled Funds)	112,128	113,249	111,007
Total change in assets available	**201,950**	**203,970**	**199,931**

Asset Type	**Carrying amount as 31 March 2015**	**Change in the net assets available to pay benefits**	
		1%	**-1%**
	£000's	**£000's**	**£000's**
Cash	28,867	29,156	28,578
Fixed Interest Securities (Segregated)	64,834	65,482	64,186
Fixed Interest Securities (Pooled Funds)	109,014	110,104	107,924
Total change in assets available	**202,715**	**204,742**	**200,688**

Currency Risk - The risk to which the pension fund is exposed to fluctuations in foreign currency exchange rates.

The pension fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2016 the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2016 and as at the previous period ending 31 March 2015.

15. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Currency exposure by asset type

	Asset value 31 March 2016	Asset value 31 March 2015
	£000's	£000's
Overseas Quoted Securities	25,262	36,181
Overseas Corporate Bonds	0	31,869
Overseas Index-Linked Bonds	16,871	40,191
Overseas Managed Funds	149,059	228,144
Private Equity/Infrastructure	49,928	49,684
	241,120	**386,069**

Currency risk sensitivity analysis

Following analysis of historical data in consultation with WM Company, the funds data provider, the fund considers the likely volatility associated with foreign exchange rate movements to be 6.08%, based on the data provided by WM. A 6.08% fluctuation in the currency is considered reasonable based on WM's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 6.08% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure by asset type

	Asset value 31 March 2016	Change in the net assets available to pay benefits	
		+6.08%	-6.08%
	£000's	£000's	£000's
Overseas Quoted Securities	25,262	26,798	23,726
Overseas Index-Linked Bonds	16,871	17,897	15,845
Overseas Managed Funds	149,059	158,122	139,996
Private Equity/Infrastructure	49,928	52,964	46,892
	241,120	**255,780**	**226,460**

Currency exposure by asset type

	Asset value 31 March 2015	Change in the net assets available to pay benefits	
		+6.03%	-6.03%
	£000's	£000's	£000's
Overseas Quoted Securities	36,181	38,363	33,999
Overseas Corporate Bonds	31,869	33,791	29,947
Overseas Index-Linked Bonds	40,191	42,615	37,767
Overseas Managed Funds	228,144	241,901	214,387
Private Equity/Infrastructure	49,684	52,680	46,688
	386,069	**409,350**	**362,789**

15. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Credit Risk - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The pension fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The pension fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the pension fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

Forward Currency Contracts agreements with Northern Trust hold a strong Standard & Poors credit rating of AA-. Their financial stability across a wide array of market and economic cycles is demonstrated by the fact that they have held this rating for the past twenty years. Their continued balance sheet strength and ratings outlook reflects the diversity of business, consistent financial performance and a conservative approach. Their credit rating is regularly monitored along with market indicators and media coverage to ensure their credit worthiness is maintained.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Lloyds Plc (which holds an A long-term credit rating or equivalent) and Natwest (BBB+) across the three rating agencies and they maintain their status as well capitalised and strong financial organisations. Deposits are placed in the AAAf rated Northern Trust Money Market Fund that is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2016 was £1,579k (31 March 2015: £2,689k) and this was held with the following institutions.

Summary	Rating	Balances as at 31 March 2016	Rating	Balances as at 31 March 2015
Money market funds	**S&P**	**£000's**	**S&P**	**£000's**
Northern Trust Global Sterling Fund A	AAAf	100	AAAm	1,700
Bank current accounts				
Lloyds (Started 01/04/2015)	A	402		0
Natwest (Capita)	BBB+	1,077	A-	838
HSBC Plc (Changed to Lloyds 01/04/2015)	AA-	0	AA-	151
Total		1,579		2,689

Liquidity Risk - The risk the pension fund will have difficulties in paying its financial obligations when they fall due.

The pension fund holds a working cash balance in its own bank accounts (Lloyds and Natwest - Capita) and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£1,579k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2016 these assets totalled £574,611k, with a further £17,296k held in cash by fund managers.

16. ACTUARIAL POSITION

The fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2013. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 72% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2013 was £683,052k. The value of the deficit at that date was £266,000k.

The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficiency over a period of 25 years. The total common contribution rate is 28.7% for the period of 1 April 2014 to 31 March 2017.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 2.50%
Funding Basis Discount Rate - 4.60%
Pay Increases - 3.30%

17. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Following the introduction of IFRS the fund is now required under IAS 26 to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS 19. The general financial assumptions used in preparing the IAS 26 valuation are summarised below:

Description	31 March 2016 % per annum	31 March 2015 % per annum
Inflation /Pensions Increase Rate	2.2%	2.4%
Salary Increase Rate	3.2%	3.3%
Discount Rate	3.5%	3.2%

An IAS 26 valuation was carried out for the fund as at 31 March 2016 by Hymans Robertson with the following results:

Description	31 March 2016 £000's	31 March 2015 £000's
Present Value of Promised Retirement Benefits	1,225,000	1,308,000
Assets	808,995	802,300
Deficit	416,005	505,700

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pensions legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net Asset Statement surrounding future liabilities of the fund.

18. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note 4 to the Pension Fund accounts.

No senior officers or Pension Committee member had any interest with any related parties to the pension fund.

18. RELATED PARTY TRANSACTIONS (CONTINUED)

Governance

There are two members of the Pension Fund Committee who are deferred or retired members of the pension fund. These members are Cllr Philip Corthorne (Chairman), a deferred member; and Cllr Tony Eginton, a retired member. Each member is required to declare their interest at each meeting.

Key management personnel

Two employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

	Accrued pension 31 March 2016 £000's	Accrued pension 31 March 2015 £000's
Corporate Director of Finance	1,259	1,241
Deputy Director - Strategic Finance	809	741

19. SECURITIES LENDING ARRANGEMENTS

On the 12 December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2016, securities worth £17,138k were on loan by Northern Trust from our portfolio and collateral worth £18,492k was held within the pool including Hillingdon. All collateral held were non-cash collaterals comprisng of various stocks and bonds. In the same period, a net income of £31k was received.

20. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the pension fund pages of the Council's web site: www.hillingdon.gov.uk and included in the Annual Report.

21. BULK TRANSFER

There were no bulk transfers into or out of the fund during the 2015/16 financial year.

22. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2016 totalled £31,122k (£56,975k at 21 March 2015).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

23. CONTINGENT ASSETS

Three admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

24. POST BALANCE SHEET EVENTS

On the 23rd June 2016 the UK voted to leave the European Union (EU) "BREXIT". The referendum result has no impact on the figures included within the Pension Fund Accounts as at the 31st March 2016, however this stage, any potential future impact on the UK economy is not fully known. The Pension Fund is managed on a long-term basis and with a deficit recovery period of twenty five years, any short-term influences would be absorbed into the ongoing funding strategy. Risk mitigation is a primary driver in setting the Pension Fund's investment objectives, with currency and market movements being managed as part of the normal process. Initial impact on the Pension Fund has been positive with an upward movement in the value of the fund since the referendum decision.

POLICY STATEMENTS

Details of the following Statements can be found on the London Borough of Hillingdon website, using the links provided below.

Statement of Investment Principles

The Statement of Investment Principles (SIP) is kept continually under review and is updated whenever there is a change in Fund Manager or mandate. The last update was agreed by Committee in September 2015, and has been added to the website. Please use the following link to see the most recently published version: http://www.hillingdon.gov.uk/article/6492/Pension-fund. The SIP is due to be updated and reported to Committee in September 2016. The SIP will be replaced from April 2017 with a published Investment Strategy.

Funding Strategy Statement

Since 2004, administering authorities have been required to prepare, publish and maintain a Funding Strategy Statement (FSS). The current FSS was approved by Pensions Committee in March 2014 following the 2013 valuation. The statement is available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund. The FSS sill be fully reviewed during 2016, following the 2016 valuation.

Communication Policy Statement

The London Borough of Hillingdon Pension Fund's Communication Policy Statement was last approved by Committee in March 2014. It can be accessed at: http://www.hillingdon.gov.uk/article/6492/Pension-fund. Once the transfer of administration to Surrey County Council is complete a full review of the Fund's communication strategy will be undertaken to align to Surrey's practices.

Governance Policy Statement

Regulations introduced in December 2005 required Administering Authorities to publish and maintain a Governance Policy Statement. The first statement was approved by Pensions Committee in March 2008. Later amendment regulations then required that by 1 December 2008 a Governance Compliance Statement should be published which required the addition of a Governance Best Practice Compliance Statement. Governance arrangements of the fund are kept under review, and statements are updated with amendments. The documents are available at: http://www.hillingdon.gov.uk/article/6492/Pension-fund . The local Pension Board has undertaken an in depth review of governance against the Pension Regulator checklist. The initial review showed a high level of compliance and a workplan is being developed to improve compliance further.

Risk Management Policy

A risk management policy was introduced during 2016 as part of the work undertaken by the local Pension Board. While Committee regularly review Fund risks through the risk register, it was identified that a formal risk management policy had not been drafted. The policy is available at:
http://www.hillingdon.gov.uk/article/6492/Pension-fund

Administration strategy

During 2016 it was agreed by Committee that best practice was to have an Administration Strategy. The aims of the Pension Administration Strategy are to:

- ensure that the parties to which it relates are fully aware of their responsibilities under the Scheme, and
- outline the quality and performance standards expected of the Fund and its scheme employers to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer service level agreement.

A draft strategy was agreed by Committee in June 2016 for consultation with Fund employers. The strategy will be updated following feedback and should be approved by Committee in September 2016.

GLOSSARY

Active Management
A style of management where the fund manager aims to outperform a **benchmark** by superior **asset allocation**, market timing or **stock selection** (or a combination of these).

Actuary
An independent consultant who advises the Council on the financial position of the Fund. See **actuarial valuation.**

Actuarial Valuation
This is an assessment done by an **actuary**, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

Additional Voluntary Contribution (AVC)
An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-12.5% of basic earnings payable.

Administering Authority
In this instance the 'Administering Authority' is London Borough Hillingdon. An administering authority is responsible, amongst other things, for maintaining member records, dealing with member queries/requests, investment of the fund and paying your LGPS pension.

Admitted Bodies
Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

Asset Allocation
The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through **tactical asset allocation** decisions.

Asset Liability Modelling
Models the interaction and the allocation of assets to meet to meet present and future financial liabilities over time

Benchmark
A yardstick against which the investment policy or performance of a fund manager can be compared. Each Fund's benchmark is customised, meaning that it is tailored to the Fund's **liability profile**.

Bond
A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

Book cost
The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from **market value**.

Broker
An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

CARE
'Career Average Revalued Earnings'. LGPS 2014 is a career average scheme, and is a method used for calculating pensions earned from April 2014.

CEB
'Capita Employee Benefits'. The administration of the LGPS was outsourced to CEB on 1 April 2012.

Commission
A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

Corporate Bond
A debt security issued by a corporation, as opposed to those issued by the government.
Corporate Governance
The system by which organisations are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

Coupon
The return earned on an investment. Eg £5 received from a £100 debenture is the coupon.

Creditors
Amounts owed by the pension fund.

Custody
Safe-keeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income, process tax reclaims and provide other services such as performance measurement.

Debtors
Amounts owed to the pension fund.

Defined Benefit
A type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

Derivative
Used to describe a specialist financial instrument such as **options** or **futures contracts**. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

Diversification
A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

Dividend
Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

Dividend Yield
An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

Emerging Markets
There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

Equity
Stock or any other security representing an ownership interest.

Ex-dividend
Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

Final Salary Scheme
An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

Fixed interest
A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

FTSE All-Share
An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

Funding Level
A comparison of a scheme's assets and liabilities.

Futures Contract
A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

Gilts
The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

Hedge
Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a **futures contract**.

Index Linked
A **bond** which pays a **coupon** that varies according to some underlying index, usually the Consumer Price Index.

Liability Profile
The future cash outflows for Scheme Member benefits as they mature.

LGPS
Local Government Pension Scheme

LSE
London Stock Exchange

Mandate
The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

Market Value
A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

Option
The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

Passive Management
A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index.

Pension Fund
A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The **pension fund** is a common asset pool meant to generate stable growth over the
long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

Private Equity
When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as **development capital**.

Property Unit Trusts
Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties

Quantitative Easing
QE is monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply

Resolution Bodies
Scheme employers with the power to decide if an employee or group of employees can join the scheme

Return
Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

Risk
The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

Scheme Employers
Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund

Security
An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity

Socially Responsible Investment (SRI)
Investments or funds containing stock in companies whose activities are considered ethical.

Specialist Manager
A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with **stock selection** within the specialist asset class. **Asset allocation** decisions are made by the investment committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

Stock
A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or **equity.**

Stock Selection
The process of deciding which stocks to buy within an asset class.

The Fund
'The Fund' explicitly refers to London Borough of Hillingdon Pension Fund

Tracking Error
An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

Transaction Costs
Those costs associated with managing a portfolio, notably brokerage costs and taxes.

Transfer Value
The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

Transition
To move from one set of investment managers to another

Underwriting
The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt)

Unit Trust
A pooled fund in which investors can buy and sell units on an ongoing basis

Unlisted Security
A security which is not traded on an **exchange**

Unrealised Gains/(losses)
The increase/(decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

Yield
The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.

Investment Strategy and Fund Manager Performance	

Contact Officers	Scott Jamieson David O'Hara, KPMG Nancy Leroux, 01895 250353

Papers with this report	Northern Trust Performance Report Market Background

SUMMARY

This report provides the basis for the investment discussion by Committee on the various issues and proposals worked up by the Investment Strategy group, consisting of Fund Officers and Advisors.

Firstly, there will be a presentation to consider the impact of "Brexit" on the current investment strategy as a result of the June referendum decision to exit the European Union.

As part of the move to greater pooling an option for the move of the Fund's passive mandate is proposed; the manager GMO has been identified as adding little value to the Fund in recent months and a proposal to liquidate this mandate is recommended; the options on how those funds should be reinvested is then presented to committee for consideration; and finally an update is provided on how the property allocation has been rebalanced.

Included with this report is the Northern Trust performance report, a summary of the current market backdrop and in Part II there is an update on each Fund Manager. These papers all form background reading to inform Committee and to aid the discussions.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **agree to the change of Fund Manager for its passive equity and bond investments from State Street to Legal and General;**
2. **agree to liquidate the GMO mandate;**
3. **assuming that recommendation 2 is agreed, consider the proposal for the use of those funds and agree to reinvest into a mix of passive funds;**
4. **note the rebalancing of property investments;**
5. **discuss the Fund performance update and agree any required decisions in respect of mandates or Fund Managers;**
6. **delegate the implementation of any decisions to the Officer and Advisor - Investment Strategy Group; and**
7. **agree the proposed changes to the Statement of Investment Principles.**

A. PASSIVE FUND MANAGEMENT

Currently the Fund uses State Street to implement its passive investment market strategies. In response to the formation of the London CIV and the pooling project generally, Legal & General Investment Managers (LGIM) has emerged as the most cost effective provider of passive investment services. This note recommends that the Fund replace State Street with LGIM.

Information

There are several large providers of passive investment funds including State Street, LGIM, Blackrock, UBS. All offer and competently deliver the range of products appropriate to the needs of the Hillingdon Fund.

Passive management fees are both low and trending lower under pressure from investors. To illustrate, currently the Fund pay management fees of 0.06% to State Street across a range of equity funds. Given the low fees passive providers make their money by securing scale.

The advent of Pooling ensures that across the LGPS sector the asset blocks will reduce in number and significantly increase in scale. This development is ideal for the passive managers and a keen pricing 'war' developed. A group of LGPS funds in the Midlands were among the first to drive down passive equity management fees to around just 0.01% and this rapidly became the benchmark for the sector.

It is understood that LGIM has reached agreement with the London CIV (and the Welsh block of LGPS among others) on these terms and LGIM has emerged has the dominant and preferred provider of passive services across the LGPS. The fee schedule available from State Street has a floor of 0.04%.

The legal fund structure of the London CIV is currently incompatible with the structures (life funds) used by LGIM (for tax efficiency) and so participating funds in the London CIV are unable to invest in passive funds through CIV. Until this situation changes, LGIM and the London CIV have agreed that the fee schedule will be offered to participating funds even if they invest directly with LGIM. As a result the HPF is able to enjoy the benefit of the London CIV while maintaining a direct relationship with LGIM. The CIV will monitor LGIM's ongoing operational effectiveness on behalf of the participating funds.

Each passive manager operates slightly differently. While LGIM rebate all stock lending to their funds, State Street return only around 70% of those fees to investors; stock lending can generate up to 0.08% and 0.10% of value per annum. LGIM funds have an additional administration charge (of between 0.005% and 0.01%), State Street funds have no additional admin fees. Although it varies across each particular market, these contrasts tend to balance each other out (or fall marginally in favour of LGIM). Finally it is worth noting that LGIM offer weekly liquidity; State Street funds can be bought or sold on a daily basis. For an investor with the investment horizon of the HPF weekly liquidity is more than adequate.

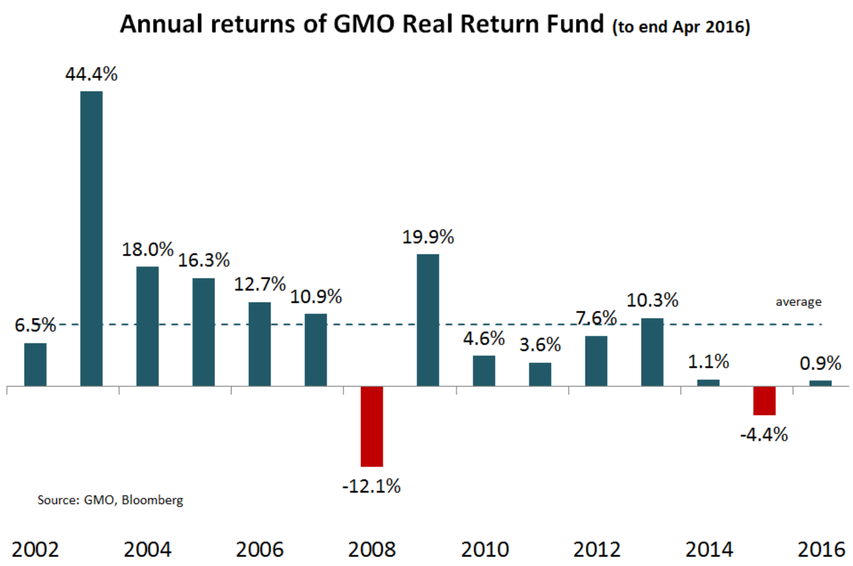
The saving in management fees and overall costs from using LGIM as opposed to State Street, under the London CIV 'umbrella', is considerable without any loss of effectiveness or utility to the Fund. The additional due diligence provided by the London CIV is important.

Transfer of assets and implementation would be conducted in conjunction with the London CIV and, as mentioned, the CIV will continuously monitor LGIM and report accordingly back to the Fund.

B. CURRENT GMO MANDATE

GMO is one of two Diversified Growth Funds (DGFs) held within the Hillingdon Pension Fund (the other is managed by Ruffer) managing approximately 8% of the asset base. DGF managers do not have a market based benchmark. Rather they set out to deliver a positive performance outcome, often expressed as a premium to inflation (CPI) or short term interest rates (LIBOR) irrespective of market conditions. As such the DGF managers are retained to deliver, in part, that which the Fund is trying to achieve as a whole. This provides asset allocation diversification across approximately 20% of the Fund. It is to be expected that a DGF manager will, given their 'closeness' to the markets, be much more adroit than the HPF in responding to events as they unfold.

GMO seeks annualized excess returns of 5% (net of fees) above the (US) Consumer Price Index over a complete market cycle. The average annual return since the beginning of 2002 has been 9.4%. Annualized volatility is expected to lie between 5% and 10% over a full market cycle i.e. not much more than half that of equity markets.

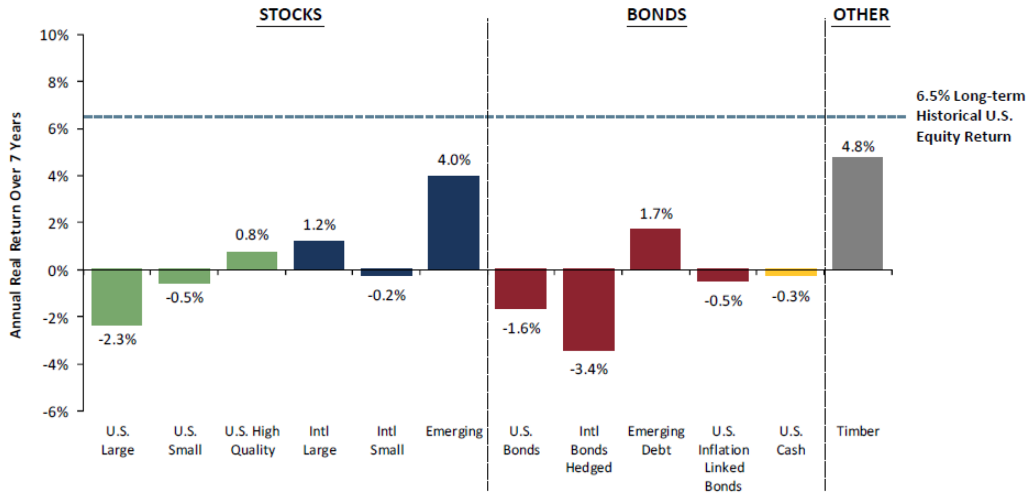


Underscoring everything that GMO believe is the view that markets are grossly inefficient – they see this as creating the most significant opportunity for them to add value. GMO further believe that value is the closest thing to a law of gravity in finance and that overpaying for an asset is the most common mistake investors make[1]. Whilst extrapolation

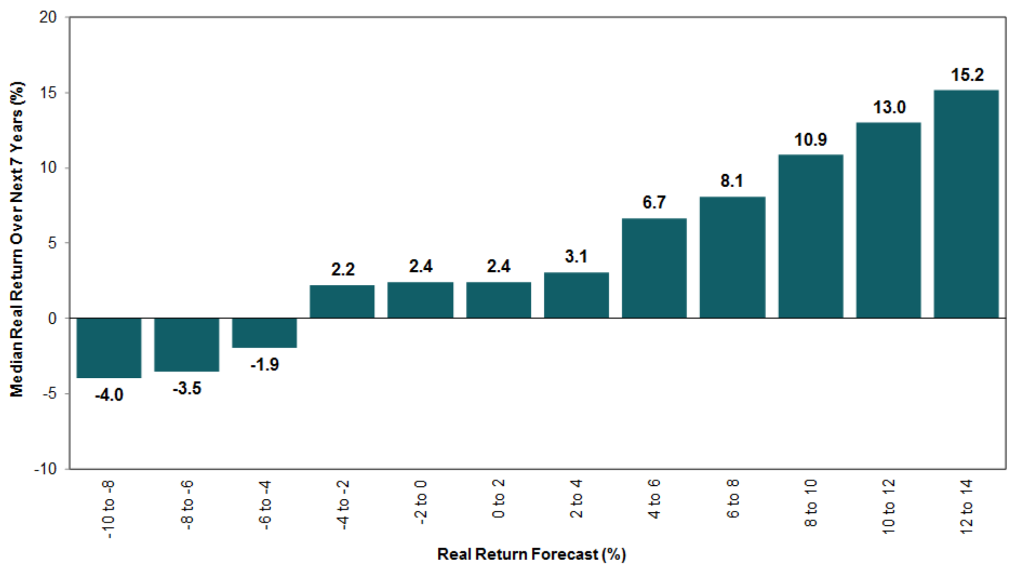
[1] GMO make clear that if they judge any particular market to be expensive then they won't invest in it; GMO are fully prepared to avoid markets on this basis even if that market is significant in a global context.

is a common behaviour, GMO contend that successful exploitation of mean reversion dominates investment returns over the long term. That said, mean reversion can be a slow process, and patience is seen as a true investment virtue and so big ‘bets’ should be tempered until valuations reach clear extremes – or, as the manager puts it, the successful investor will wait for the ‘fat pitch’ (when the odds are dramatically in their favour). Finally generating absolute returns is stated as their primary concern; as compounding losses can be ‘the road to ruin’, they focus on reducing downside risk.

GMO build their portfolios based on a seven year assessment of expected total return. In this approach the key forecast to be made is the valuation of the asset at the seven year horizon. Currently GMO see all developed market equities as standing on a significant premium valuation multiple and so the expected return is very low (or negative). The chart below shows that only emerging market equities and timber are seen as coming close to the historic real return from equities and even they are far from cheap.

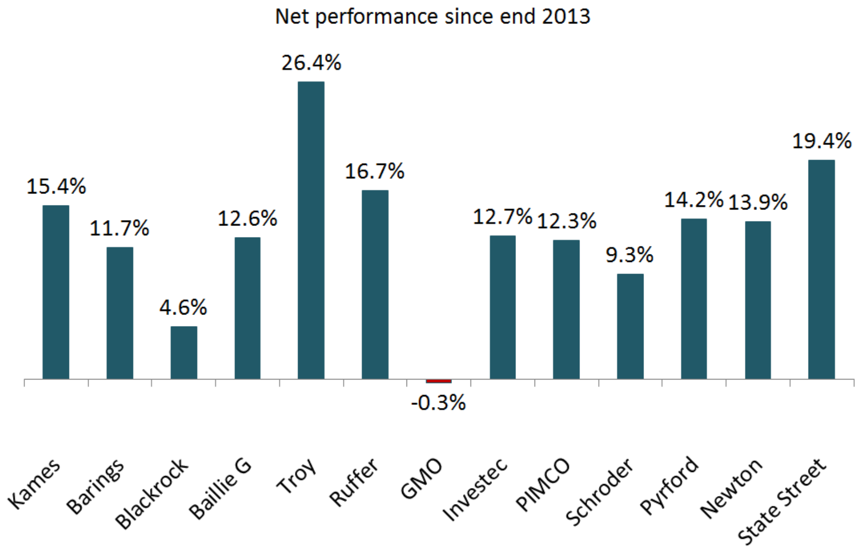


What makes GMO stand out is that they have been producing these seven year return estimates for many years and, as the chart below displays, their forecast record is very strong. Although it should be noted however that this data is dominated by the market conditions prior to the Great Financial Crisis we should not be quick to dismiss their assessment.

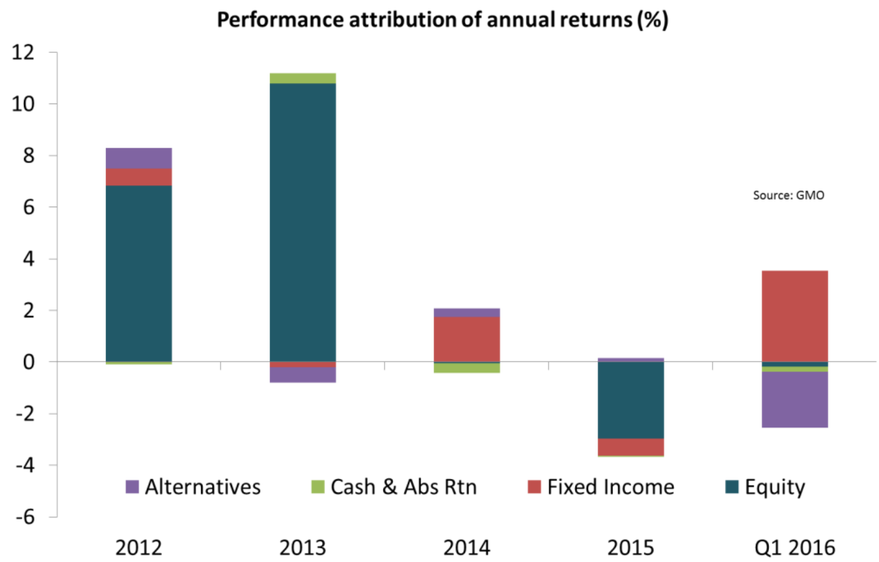


The annual returns chart above for GMO (in common with a number of other DGF managers) highlights a loss of return momentum; in particular, recent years have seen returns considerably less than the historic average. This is not simply due to low cash yields or inflation (both have been low for several years). Rather it captures the impact of lower market returns, diminished risk taking and, at times, erratic market behaviour.

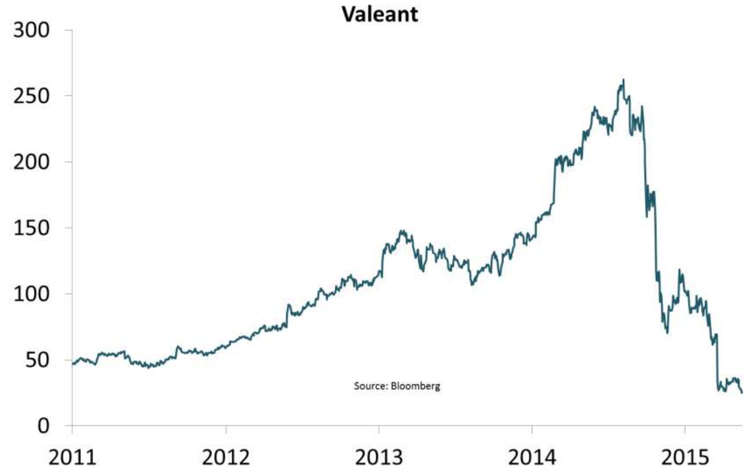
The chart overleaf details the net return from a range of prominent DGF managers since the end of 2013; GMO's returns have been both absolutely and relatively disappointing. [Note that currently it is believed that the London LCIV will maintain a preferred list of DGF managers - Baillie Gifford, Newton, Pyrford and Ruffer.]



The next chart displays the drivers of GMO's performance over the past four years (to end Q1, '16). In 2012/13 (and historically) equity market allocations have completely dominated returns; the performance contribution from equities has evaporated. At the same time the other allocations have not bridged the gap.



As mentioned above, GMO maintain a deep sense of distrust about markets – a concern common across a number of the HPF's managers. The problems start with the sense of significant over-valuation across all asset markets. In recent years this has led them to maintain strong weightings in emerging equity markets and in a small number of significant single stock positions; the narrower the opportunity set, the deeper will be the concentration. This was illustrated recently in the portfolio when nearly 20% of its equity allocation in just three stocks – Alibaba, Amazon and Samsung. Following problems with a strong weighting to Valeant (the now-troubled US company) this approach has now been pared back significantly. The now troubled pharmaceutical company has seen its share price collapse on poor sales results, possible bond defaults and an unexpected change in strategy. Already a material holder, GMO quadrupled its weighting in Q3, 2015; the share price is currently one-tenth of the average during that period.



All managers will, from time to time, own shares that fail. The net effect of such strong idiosyncratic equity risk-taking has neither been particularly positive or negative for GMO but the manager has found that it has completely dominated their day-to-day experience and client contact in particular (“*we spend 95% of our time talking about Valeant”)*. Chastened, high conviction stock picking will no longer materially influence returns at GMO; these will now be determined by broad index-like (i.e. pseudo passive) allocations to equity markets – emerging economy equities in particular.

GMO’s distrust of equity markets is matched by their view that bond yields are far too low. Indeed in their recent newsletter they state that ‘t*o achieve a return of 7.7% for the index over the next seven years* [their target], [US Government bond*] yields would have to fall to approximately negative 17% at the end of the period’*; this is not something they judge as credible. While the Manager maintains an allocation to bond markets, the associated risk commitment is very low; current bond allocations are not going to drive returns or offset any equity losses. Finally GMO currently hold a lot of cash – for which the manager earns his fee of 75-80bps per annum.

Group Exposures [4]

EQUITY	**42.5%**
US Quality	4.9%
US Opportunistic Value	6.7%
Europe Value	9.0%
Japan	3.8%
Other Int'l Opportunistic Value	2.2%
Emerging Markets	16.0%
ALTERNATIVE STRATEGIES	**15.1%**
Merger Arbitrage	5.2%
Systematic Global Macro	5.4%
Relative Value Interest Rates & FX	4.6%
FIXED INCOME	**21.9%**
High Yield/Distressed	4.1%
ABS/Structured Products	4.3%
U.S. TIPS	13.5%
CASH/CASH PLUS	**20.5%**
Cash & Cash Equiv.	20.5%

Discussion

The corollary of nearly a decade of near zero interest rates is that all investment returns will appear low in an historical context (and lower than the returns presumed to support myriad established business models – a feature). Until recent years market returns have been relatively strong – an outcome driven in part by a strong re-rating of financial assets (consistent with very low long term discount rates). GMO judge that this process has gone too far. Indeed even the sharp declines in equity markets seen in Q1 – when, across the world, share prices fell by 12% in just six weeks - were not sufficient to restore value in GMO's judgment. **In GMO's view, a near 50% decline is needed before developed market equities can be safely purchased.** Again this is a judgment shared, in direction at least, by other retained managers (i.e. Newton, Ruffer). While other DGF managers have been able to sustain returns from maintaining more effective bond weightings GMO have not seen bonds as having any attractions – this has been a costly position to adopt and differentiates them from their peers. The alternative performance support has come from nuanced equity implementation; GMO have now abandoned this approach. As a result they have accepted, potentially for an extended period that they will not match their return target and certainly not the historic averages. By operating a portfolio based around EM equities and significant proportions of cash/pseudo-cash investments they hope to outperform on the way down and to be well positioned to exploit the severe market correction that they expect. It should be understood that 'out perform on the way down' means lose less.

Against this backdrop the HPF has the following choices:

1. maintain the current position (in respect of GMO), taking the long-view - as befits a fund of the HPF's nature;
2. find an alternative manager for GMO's allocation (an alternative DGF manager or otherwise), or
3. with GMO's asset allocation expected to remain relatively static, to replicate GMO's programme with a mix of much lower cost passive funds and save more than 60bps of management fee.

Consideration of the above is complicated by the development of the London CIV (LCIV). At this time there is no indication that GMO will feature in the LCIV's list of preferred DGF managers. In the light of the information summarised in this note it is not obvious that the LCIV would grant GMO preferred provider status. As a result at some stage – relatively soon[2] - the GMO mandate will have to be terminated for reinvestment into the LCIV programme. Even ignoring the unattractive returns suggested by the Manager, the LCIV would effectively eliminate option 1 but would also have an influence over option 2.

The Fund historically had a single DGF manager – Ruffer. A second DGF manager was appointed to lessen the potential impact of having such a concentrated exposure (c 20%) with one manager; the recent experience with GMO (and previous experience with Barings) demonstrates the associated risks clearly. In applying option 2, moving back to Ruffer in full, would rebuild the risk that the HPF was trying to reduce.

Officers and Advisors would recommend adopting the third option now – of AA replication using passive funds – could become a permanent change provided that the switch utilised the LCIV's passive fund choices and that those choices included an EM equity programme; doing so would reduce costs and, arguably, simplify the Scheme's asset

[2] The Ruffer programme moved into the LCIV on June 21st, 2016.

allocation. It should be appreciated however that this increases the asset allocation burden on Officers and Members to implement any changes in response to a material change in market opportunities (as GMO expect). Finally, GMO have been expecting markets to slump for some time and it could easily be some years before such a development occurs[3]; each year that it doesn't happen would see option the Fund save c.70bps in management fees[4] if option 3 was chosen.

Resolving the appropriate course of action depends on a range of factors (led by those mentioned above). On balance replacing GMO with a suite of passive funds, managed appropriately, is preferred and discussed elsewhere. Cost reduction is a strong goal (this underpins much of what the LCIV is trying to achieve) and this option maximises the possible fee saving.

C. REINVESTING MONIES RELEASED FROM GMO

Assuming that the recommendation to liquidate the GMO investment is approved, this discussion makes the case for reinvestment of the proceeds across a mix of passive funds available to the Hillingdon Pension Fund. It further suggests how that mix might evolve over time.

The GMO programme is representative of a number of diversified growth (or balanced) funds (DGFs). DGF managers seek to reward investors with equity-like returns (real 4-5% p.a.) over time while delivering much lower volatility (typically 50-75% of equity volatility). They set out to achieve their objectives by investing across a full range of assets e.g. equities, bonds – government and corporate, property, commodities - typically gold; diversification lowers risk. They will endeavour to enhance returns through discretionary rebalancing and, often, by operating nuanced 'bottom-up' stock portfolios. The spectrum of DGF managers spans those that invest in a very large number of distinct sub-programmes e.g. Baillie Gifford to those that profess strong asset-allocation skills (to avoid falling and exploit rising markets) e.g. Pictet.

DGFs are a popular choice for smaller investors that don't have the scale or resources to exploit the full spread of market opportunities on an individual basis; the HPF is not such an investor. Many LGPS invest in DGFs to gain access to managers that can more plausibly harvest market changes i.e. engage in market timing with a speed and efficiency that is often unavailable to a LGPS. It is with this objective that the Fund invests in two DGFs – Ruffer and GMO. Ruffer has been a success for the Fund; GMO – as discussed elsewhere – has not.

The current GMO fund can be summarised as just two investments: pseudo-passive emerging market equities and a large allocation to cash. The Manager expects this balance of investments to persist for the foreseeable future. As a result, the GMO programme can be replicated using a passive emerging market equity fund and a money-market or shorter-dated credit fund saving virtually the entire GMO fee (0.8% per annum).

[3] Consideration of the possible timetable and catalysts behind any such adjustment is the subject of a full note itself.
[4] Transition costs are likely to equate to 3-6 months of fee savings.

As mentioned, most DGFs invest across many more markets (*betas*) and the decomposition of GMO into passive funds can be made more representative of a typical DGF by increasing the opportunity set to span passive longer duration government bonds, corporate bonds and index-linked together with UK and global equity programmes and, for completeness Gold. Property is represented with a listed REIT fund. This is the spread of investments likely at any mother DGFs including Ruffer. Accordingly the first proposal for the GMO monies would be to invest across an equal mix of such mainstream passive funds:

Long IL Gilts	Long UK corporate bonds	UK equities	Global equities	EM equities	UK REITs (property)	Gold

This would generate an attractive diversification and exposure to all the major investment *betas*. Denying cash as an investment option avoids a zero-yielding asset, unattractive to a long-term investor such as the Hillingdon Fund. Had the Fund operated this since the start of 2010 the annualised return generated would have been 8.8%. Implementation costs through the passive manager are minimal.

An evolution of this proposal would be to skew the balance of the components in a preferred direction; this is what DGF managers do on a continuous basis. One tilt appropriate to the Fund and respecting to low risk objective of DGF managers would be that of *minimum risk.* This approach sets out to optimise the balance of investments that would have delivered the lowest level asset volatility of the previous period. One of the greatest challenges in optimisers is that the user can, by biasing the input data (typically on return estimates), achieve the result they wanted initially. *Minimum risk* requires no data beyond the actual historic price performance of each asset. The only influence that the user can exert is on the choice of components and the imposition of any minimum and maximum allocations. That said setting the opportunity will be crucial to the programme's success.

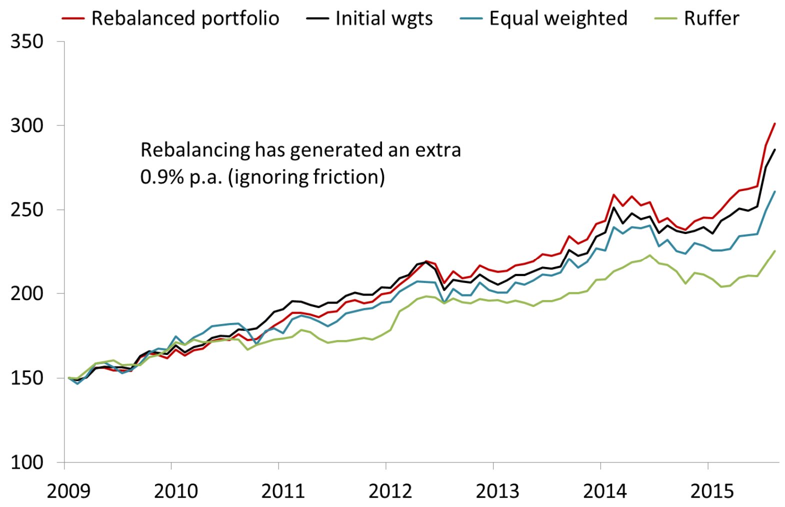
Based on the components listed above and subject to a maximum of 40% in any single component, the *minimum risk* weights appropriate at end 2009 would have been:

Long IL Gilts	Long UK corporate bonds	UK equities	Global equities	EM equities	UK REITs (property)	Gold
38%	29%	12%	11%	0%	0%	11%

If implemented from the end of 2009 the annualised return would have been 10.3%.

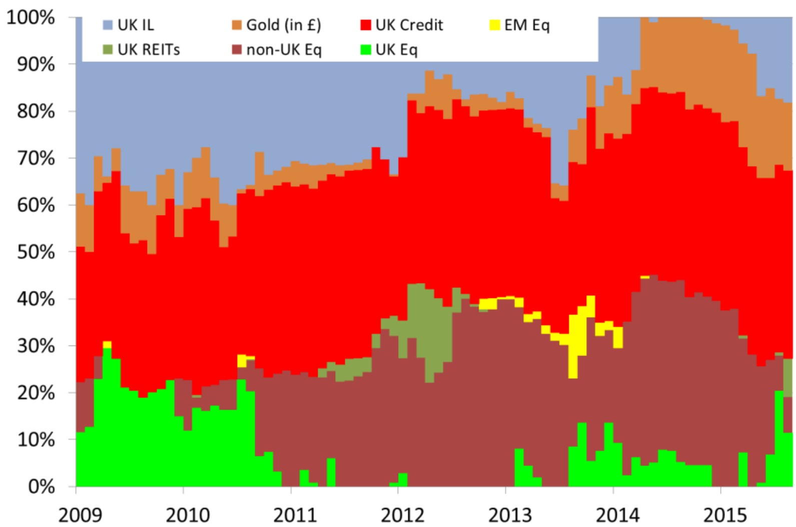
The logical extension of the above is to regularly rebalance the weightings. The arithmetic in re-optimising the weights naturally forces the programme to add exposure to betas that have been weak at the expense of exposures that have performed strongly. If rebalancing had been applied monthly, then the annualised return achieved, gross of costs, would have increased to 11.2%.

The chart below compares the various suggestions against Ruffer (note that Ruffer's data is net of fees).



The *minimum risk* approach – statically or dynamically applied - has proved successful over the period examined. One reason for this has that the programme has been forced to invest in something – cash was not allowed (at a time when cash was being undermined by central bank policies e.g. QE. This contrasts with many DGF managers which have, in recent years and increasingly, become wary of the market outlook – whether bonds or equities; GMO being perhaps the most extreme in this regard. As such, a non-cash DGF (as suggested above) complements both the other discretionary DGF (Ruffer) and other cautious, managers retained by the Fund e.g. Newton.

The chart below shows how the asset allocation of the monthly rebalanced programme has evolved over time.



The programme has expressed a strong preference for international equities and UK corporate bonds (credit) and, recently, Gold and index-linked.

Notes:

1. The seven components used represent a broad selection of possible market exposures. Other attractive components may emerge and warrant inclusion; equally some of the seven may lose strategic attractiveness.

2. The operation of a 40% maximum weighting forces diversification while the setting of a zero floor allows the system to disregard exposures which offer nothing distinct.
3. The spread of components and choice of maximums and minimums can be evolved by Officers and Advisors as required and reported to Members. Changes are expected to be very infrequent.
4. As the system is built out of passive funds, costs are low.
5. The *minimum risk* approach may be superceded by an alternative metric; once again this would be discussed with Members.
6. The arithmetic behind the process is straightforward and requires no discretionary input

For the foreseeable future a *minimum risk* approach will be adopted. Members will be consulted ahead of any change.

D. REBALANCING OF UK PROPERTY INVESTMENT ALLOCATION - information

Rebalancing the asset allocation of a fund such as the Hillingdon Pension Fund is good discipline to ensure the investment portfolio remains in line with the asset allocation agreed by Pensions committee through the Funds investment strategy. Recent market movements have seen the weighting in the Fund to UK secondary property fall relative to that of equity markets, global equities in particular. Allied to changed conditions the opportunity was taken to rebalance the Fund and exploit unexpected price changes.

The Fund invests in higher yielding UK property through the AEW Core UK Property fund. This is a well-diversified (65 properties) portfolio of commercial properties located almost exclusively out-with central London. The manager favours smaller properties and an active management style (refurbishing etc) and has been a source of strong returns for the Fund.

The Fund also invests in the Newton Global Equity Income fund which pursues high companies that are able to deliver a premium and resilient dividend yield. Shares held are predominately listed in overseas markets.

The UK Referendum result has impacted markets mostly significant in two ways: the £ value of overseas investments has risen sharply (in line with the weakness of £) and in a sharp markdown in the price of UK commercial property – especially that in the London area.

The AEW programme is subject to some modest redemption requests (2% of client assets) and has compounded the property value mark down by implementing a bid price basis to the units – this has seen the unit price fall by 8% (bringing the total post-Brexit adjustment to around minus 15%).

The Manager of the Newton equity fund has – correctly – been extremely cautious about the outlook for the world economy and has expected markets to favour those companies with the most resilient dividend yield. This has seen the Newton programme outperform its benchmark by around 18% in the year to end June 16.

The price declines in the AEW fund equate to around £8m (paper) loss in value of the Fund's exposure. Coincidentally the seller of units in the AEW fund is looking to realise £7.5m. Funded by locking in some of the exceptional gains seen from the Newton programme, the Fund has acted to purchase these AEW units being sold and restore the previous weighting to UK property (AEW).

Under delegated powers, the transaction was conducted in the secondary property market on 15th August using CBRE. The fund were not able to directly execute the purchase through AEW itself due to normal month-end liquidity point which would have jeopardised the ‘bid price’ basis that helped increase the attractiveness of the rebalancing. CBRE are a recognised agent for this type of activity and charge a fee to the Fund of 0.1% for their services in line with market practice.

E. STATEMENT OF INVESTMENT PRINCIPLES

As members are aware, we have a responsibility to maintain the Statement of Investment Principles (SIP) to ensure that it accurately reflects the arrangements within Hillingdon and matches the Investment Strategy. The SIP has been updated to reflect the change to the governance arrangement with the creation of the LPB and the cessation of the Investment Sub Committee. The updated SIP is attached with the changes highlighted in yellow.

Northern Trust | Investment Risk & Analytical Services

London Borough of Hillingdon

30-06-2016

London Borough of Hillingdon

30-06-2016

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Client Commentary

Total Scheme Commentary

Forex volatility is the theme of 2016 so far. The pound hit 30 year lows versus the US dollar and investors scrambled for the safe havens of gold and government bonds following the shock result of the UK referendum on EU membership. This led to the Bank of England pumping £3.1bn into the banking system, however Credit ratings agencies took the decision to downgrade the UK noting that Brexit would likely be mildly negative for UK-focused corporates. Equity markets perked up during Q2 after a disappointing start to the year but currency returns make all the difference between red and black over the last twelve months. The World Bank lowered its forecast for global growth to 2.4% from 2.9% and warned that the initiative to bring emerging nation income up to developed world levels has been set back decades by the economic slowdown and commodities slump. Globally, Oil & Gas gained most value over quarter two and Utilities were the best performer over the year. Technology lost most over the quarter but over twelve months Financials is now the worst performer. Oil was up $10 over the three months to finish the second quarter at $50. The FTSE World was up by 8.7% over the quarter and returned 14.6% over the year. The JPM Global Government Bond Index returned 11.4% for the quarter while the Barclays Capital Global Aggregate Corporate Bond index was up 9.8%.

Against this backdrop the London Borough of Hillingdon returned 4.64% which leads to an outperformance of 3 basis points against the Total Plan benchmark of 4.60%. In monetary terms this is a growth in assets of £37.0 million and the value of the combined scheme now stands at £846.2 million as at 30th June 2016. This increase comes in spite of a withdrawal of £0.5 million, this period the Kempen global equity mandate was terminated, along with small disinvestments from GMO, UBS Property and Private Equity, the majority of this was transferred to Newton, while additional investment was also made with Premira and Macquarie. Looking further into the analysis the results seen were driven by selection effects, the most notable being Ruffer's impact of 40 bps, with Macquarie adding a further 24 bps, this was partly offset by the terminating Kempen mandate, detracting -17 bps. While within allocation, there is a negative impact the most significant being underweight Newton and State Street Gilts, while overweighting AEW

After a good start to 2016 the Scheme is ahead of the benchmark by 10 basis points over the rolling one year period, coming from a return of 7.85% against the benchmark of 7.74%. The largest impact comes from selection in Macquarie (+54 bps) coupled with UBS Property and Newton (both +37 bps), although these are offset by the negative effects in GMO (-49 bps) and UBS Equity (-42 bps). Similar to the quarter allocation has a negative impact coming from underweighting Newton and State Street Gilts. While over the longer periods, the Scheme continues to outperform, producing a return of 7.81% over three year versus 7.63%, while for 5 years we see figures of 7.62% versus 6.96% per annum. Then since inception in September 1995, the Fund remains ahead of target by 8 basis points with an annualised return of 6.86% against 6.77%.

Manager Commentary

AEW UK

In the second quarter of the year AEW UK Property grew 2.64%, relatively this is a 2.54% outperformance when compared to the IPD UK PPFI All Balanced Funds index figure of 0.10%. With positive absolute returns in every period since inception and only two quarters in the red on a relative basis, growth ahead of benchmark is seen in all periods. For the rolling one year a return of 13.58% against the benchmark of 7.16% translates as exactly a 6% relative return. Then in the short period since inception in June 2014, the fund return is 13.65%, leading to an outperformance of 2.15% when compared to the IPD figure of 11.26%.

GMO Global

The GMO Global mandate regained the slight losses from the previous period with a return of 0.27% over the last three months, altough measured against the OECD CPI G7 (GBP) Index figure of 0.80%, translates as an underperformance of -53 basis points. Driven by the Q3 2015 results longer periods also demonstrate underperformance; with the full year showing the worst relative return seen of -5.73%. Then in the short period since the start of November 2014 when the fund incepted, a return of -2.38% against the benchmark of 0.63% leads to a shortfall of -2.99%.

JP Morgan

During the latest quarter JP Morgan produced their best figures in over four years with growth of 2.90% leading to an outperformance of exactly 2% when compared to the 0.89% target for the 3 Month LIBOR + 3% p.a. Coupled with the good results in the previous period, longer time periods are now all ahead of target, they exhibit outperformance of 1.00% and 0.03% over the one and three years respectively. While since November 2011 their return of 3.73% is 8 basis points above the target return of 3.64% on an annualised basis.

Newton

In the second quarter of 2016 Newton produced a return of 8.35%, although this was a relative return of -0.81% when compared to the 9.23% seen for the FTSE World Index +2%. This broke the short run of outperformance, however they still post one of the highest relative returns over one year with 11.08%, coming from figures of 28.94% versus 16.08%. Although with nine underperforming quarters over the last twelve the three year return falls just short with figures of 13.17% vs 13.42%; then since inception in January 2013, the fund return of 13.88% falls short of the yardstick of 13.93% by just 4 basis points.

Client Commentary (cntd)

Manager Commentary

M&G Investments

This quarter M&G broke the run of underperformance by beating the 3 Month LIBOR +4% pa target of 1.13% by 3.68%, posting a return of 4.85%. This more than makes up for the three previous quarters, leading to one year figures of 5.20% against 4.59%. Driven by the previous good results, all longer periods are ahead of target. Over the three and five year the account registers figures of 7.06% vs 4.57% and 6.53% vs 4.66% respectively; since inception (May 2010) return falls slightly to 5.95% pa whilst the benchmark is 4.69% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 6.73% opposed to the comparator of 4.42%.

Macquarie

In the latest quarter, once again Macquarie posted the best relative return this period of 9.72%, generated from a return of 10.69% against 0.89% for the 3 Month LIBOR +3% pa. With eight consecutive quarters of positive absolute and relative returns the one year return of 31.86% beats the target of 3.59% by 27.29%, again the highest relative return over this period. Then while three and five years remain ahead, they fall below the target since inception (September 2010), a shortfall of -0.97%, derived from a return of 2.68% against the target of 3.68%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.48%, which is ahead of the benchmark figure of 3.59%.

London CIV Ruffer

In the latest period the Ruffer portfolio produced a 3.77% return which was 3.61% above the LIBOR 3 Month GBP figure of 0.16%. This offsets the poor result seen in Q3 2015, meaning the one year period edges just ahead of the target of 0.60% with a growth in assets of 0.75%. Then with only 2 quarter's in the red in the last four years outperformance remains in the longer periods. This is seen in a three year return of 4.64% versus 0.56% increasing to 5.73% against 0.66% over five years, culminating in since inception (May 2010) figures of 5.89% versus 0.68% per annum, which translates as a relative return of 5.18%.

Private Equity

Over the latest period private equity assets show positive absolute returns, LGT continued their almost 3 year run of growth with a figure of 9.13%, while Adam Street posted 6.01%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. Over one and three years they both exhibit some of the highest returns (only matched by Macquarie and UBS Property), Adam Street posts 22.53% and 17.05%, while LGT is 35.07% and 14.33% respectively. While over five years both see a slight fall with Adam Street at 14.693%, while LGT posts 10.76%. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 5.83% pa, while LGT sees a slight dip to 10.13%.
At present no benchmark has been applied to these mandates.

Manager Commentary

Premira Credit

There was no price change in the Premira Credit Fund again this quarter, meaning their 0% return was below the 3 Month LIBOR +4% p.a. target of 1.13%. Comparable analysis will only be seen over a longer period, but in the short period since the start of December 2014 when the fund incepted, the fund posts a return of 8.65%, while the benchmark shows 4.49%.

SSGA

The passive SSGA portfolio produced a quarterly return of 6.34%, just -3 basis points below the benchmark; further analysis confirms the passive nature with all categories aligned with their respective indices. So over the year they produce a 7.53% return, which also falls -3 basis points short of the target, while over 3 years the return increases to 8.01% pa which is just -4 basis points behind the benchmark. Since inception (November 2008) a return of 11.18% pa which exactly matches the benchmark, the passive nature is also demonstrated by the R squared and beta figures of 1, while the tracking error is just 0.22.

UBS

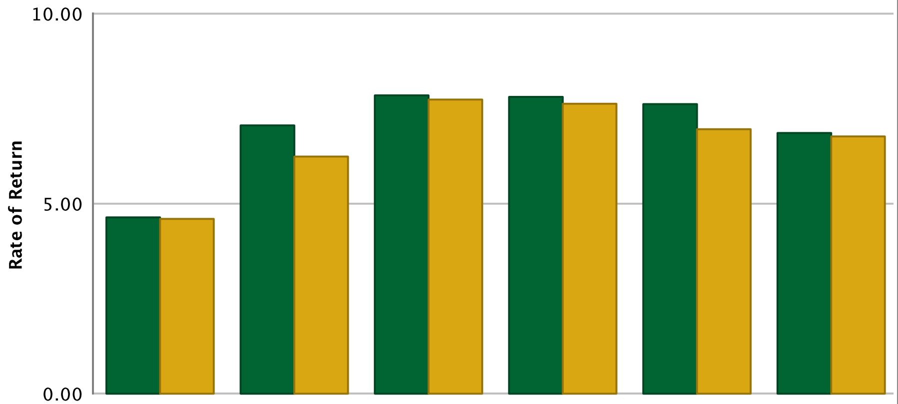
During Q2 the UBS UK Equity investments were just ahead of the benchmark, with a return of 4.75% compared to the FTSE All Share figure of 4.70%. Looking into the attribution analysis, the stand-out positive impact was overweighting Oil & Gas (1.01%), however this effect was negated by selection, mainly caused by Consumer Services (-0.94%). However, the good start to 2016 is not enough to offset the 1 year deficit, with figures of -1.07% vs 2.21% leading to a relative return of -3.21%. This is attributable to both allocation and selection, with the biggest impact coming from the underweight of Consumer Goods (-2.40%), partly offset by overweighting Oil & Gas (0.97%). While in selection, the most significant impact was in Financials (-1.42%), while the largest positive impact came from Basic Materials (1.10%). UBS fall just short over the tree year period, but then due to the previous good results, especially in 2013, maintain outperformance over the longer time periods, translating as a since inception return of 9.65% versus 8.59% on an annualised basis.

UBS Property

Over the second quarter the UBS Property assets fell for the first time since Q4 2012, with a figure of -0.53%, which against the IPD UK PPFI All Balanced Funds index figure of 0.10%, translates as a relative return of -0.63%. With the previous good run of results, high absolute returns staying ahead of the IPD target remain over the longer periods, peaking over the three year with a return of 14.64% against 12.51%. Then since inception, in March 2006, the fund return falls to 3.57% per annum while the benchmark shows 3.29%, translating as an outperformance of 27 basis points.

Executive Summary

London Borough of Hillingdon Total Fund Gross of Fees



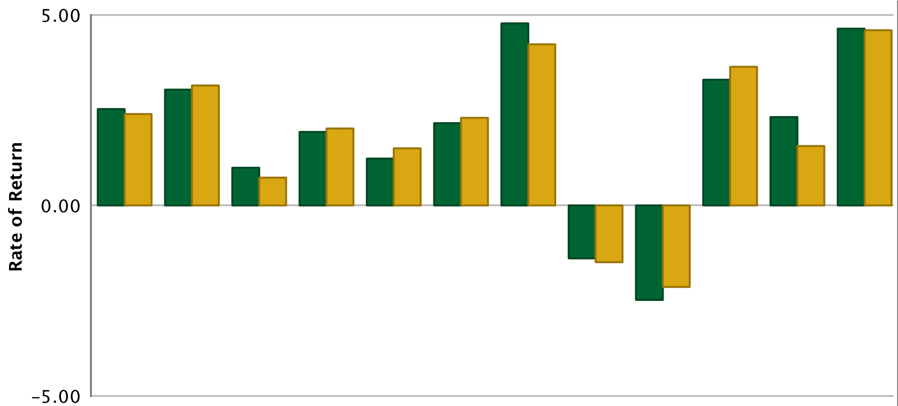
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	4.64	7.06	7.85	7.81	7.62	6.86
Index	4.60	6.24	7.74	7.63	6.96	6.77

Index: Total Plan Benchmark

Risk Statistics	3 Yrs	5 Yrs
Return	7.81	7.62
Index Return	7.63	6.96
Excess Return	0.18	0.67
Standard Deviation	5.17	5.77
Index Standard Deviation	5.06	5.56
Tracking Error	1.05	1.25
Information Ratio	0.18	0.53
Sharpe Ratio	1.39	1.17
Index Sharpe Ratio	1.38	1.10
Sortino Ratio	-	1.90
Treynor Ratio	7.16	6.68
Jensen's Alpha	0.16	0.55
Relative Volatility (Beta)	1.00	1.01
R Squared	0.96	0.95

Index: Total Plan Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)
Category: Total Fund Gross of Fees.

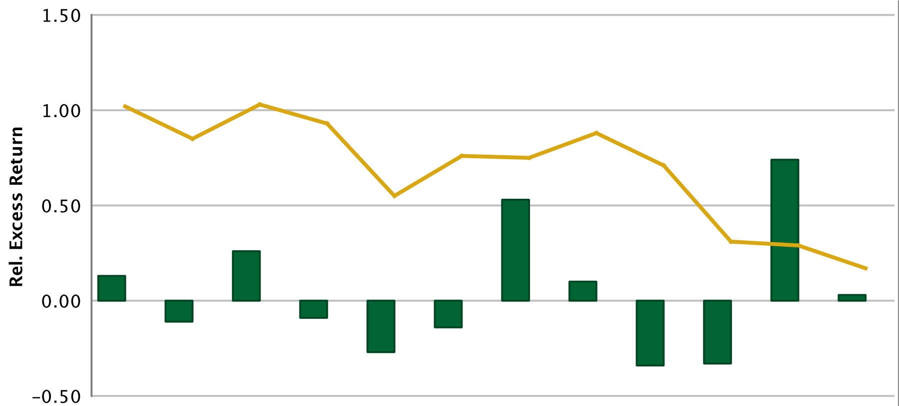
London Borough of Hillingdon Rolling Quarters Total Fund Gross of Fees



	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16
Fund	2.53	3.04	0.99	1.93	1.23	2.16	4.78	-1.39	-2.48	3.30	2.32	4.64
Index	2.40	3.15	0.73	2.02	1.50	2.30	4.23	-1.49	-2.14	3.64	1.56	4.60

Index: Total Plan Benchmark

London Borough of Hillingdon Rolling Quarters Total Fund Gross of Fees



	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16	Q2 '16
3M R.Excess	0.13	-0.11	0.26	-0.09	-0.27	-0.14	0.53	0.10	-0.34	-0.33	0.74	0.03
3Y R.Excess	1.02	0.85	1.03	0.93	0.55	0.76	0.75	0.88	0.71	0.31	0.29	0.17

Index: Total Plan Benchmark

Investment Hierarchy

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Three Months Port	Three Months Index	Three Months Relative Excess	Year to Date Port	Year to Date Index	Year to Date Relative Excess	One Year Port	One Year Index	One Year Relative Excess
London Borough of Hillingdon	846,165,489	100.00	4.64	4.60	0.03	7.06	6.24	0.78	7.85	7.74	0.10
Total Plan Benchmark											
Adam Street	19,148,428	2.26	6.01	-	-	11.07	-	-	22.53	-	-
AEW UK	37,148,140	4.39	2.64	0.10	2.54	5.32	1.20	4.07	13.58	7.16	6.00
LBH22 AEW Benchmark											
GMO Global	59,206,319	7.00	0.27	0.80	-0.53	0.23	1.20	-0.96	-5.15	0.62	-5.73
LBH23 GMO Global											
JP Morgan	37,664,475	4.45	2.90	0.89	2.00	5.21	1.79	3.36	4.63	3.60	1.00
LBH15 BM JP Morgan BM											
Kempen	5,648	0.00	-	-	-	-	-	-	-	-	-
LBH20 Kempen MSCI World +2%											
LGT	10,861,970	1.28	9.13	-	-	19.49	-	-	35.07	-	-
M&G Investments	40,966,002	4.84	4.85	1.13	3.68	4.82	2.27	2.49	5.20	4.59	0.58
LBH10 3 Month Libor GBP +4%Pa											
Macquarie	22,601,659	2.67	10.69	0.89	9.72	19.39	1.78	17.30	31.86	3.59	27.29
LBH14 Macquarie Libor +3%											
Newton	125,965,781	14.89	8.35	9.23	-0.81	17.33	13.00	3.83	28.94	16.08	11.08
LBH19 FTSE World Index +2%											
Premira Credit	28,209,967	3.33	-0.00	1.13	-1.12	0.00	2.27	-2.22	7.95	4.59	3.21
LBH24 Premira											
London CIV Ruffer	96,381,312	11.39	3.77	0.16	3.61	3.94	0.31	3.63	0.75	0.60	0.15
LBH11 Ruffer Benchmark											
SSGA	168,335,825	19.89	6.34	6.38	-0.03	7.85	7.91	-0.06	7.53	7.56	-0.03
LBH07 SSGA Benchmark											
State Street Gilts	24,772,180	2.93	13.36	13.39	-0.02	-	-	-	-	-	-
LBH25 FTSE Index Linked											
UBS	102,593,396	12.12	4.75	4.70	0.05	6.15	4.27	1.80	-1.07	2.21	-3.21
LBH04 UBS Benchmark											
UBS Property	70,899,026	8.38	-0.53	0.10	-0.63	0.83	1.20	-0.37	11.47	7.16	4.03
LBH06 UBS Property Benchmark											

Investment Hierarchy(2)

Account/Group -% Rate of Return	Three Years			Five Years			Inception to Date			Inception Date
	Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess	
London Borough of Hillingdon	7.81	7.63	0.17	7.62	6.96	0.62	6.86	6.77	0.08	30/09/1995
Total Plan Benchmark										
Adam Street	17.05	-	-	14.69	-	-	5.83	-	-	31/01/2005
AEW UK	-	-	-	-	-	-	13.65	11.26	2.15	30/06/2014
LBH22 AEW Benchmark										
GMO Global	-	-	-	-	-	-	-2.38	0.63	-2.99	31/10/2014
LBH23 GMO Global										
JP Morgan	3.61	3.57	0.03	-	-	-	3.73	3.64	0.08	08/11/2011
LBH15 BM JP Morgan BM										
Kempen	-	-	-	-	-	-	-	-	-	31/01/2013
LBH20 Kempen MSCI World +2%										
LGT	14.33	-	-	10.76	-	-	10.13	-	-	31/05/2004
M&G Investments	7.06	4.57	2.38	6.53	4.66	1.78	5.95	4.69	1.21	31/05/2010
LBH10 3 Month Libor GBP +4%Pa										
Macquarie	12.06	3.57	8.20	4.24	3.66	0.55	2.68	3.68	-0.97	30/09/2010
LBH14 Macquarie Libor +3%										
Newton	13.17	13.42	-0.22	-	-	-	13.88	13.93	-0.04	24/01/2013
LBH19 FTSE World Index +2%										
Premira Credit	-	-	-	-	-	-	8.65	4.49	3.99	30/11/2014
LBH24 Premira										
London CIV Ruffer	4.64	0.56	4.05	5.73	0.66	5.03	5.89	0.68	5.18	28/05/2010
LBH11 Ruffer Benchmark										
SSGA	8.01	8.05	-0.04	7.66	7.67	-0.01	11.18	11.18	0.00	30/11/2008
LBH07 SSGA Benchmark										
State Street Gilts	-	-	-	-	-	-	15.18	15.25	-0.06	04/03/2016
LBH25 FTSE Index Linked										
UBS	5.42	5.86	-0.41	7.65	6.27	1.30	9.65	8.59	0.98	31/12/1988
LBH04 UBS Benchmark										
UBS Property	14.64	12.51	1.90	9.68	8.44	1.15	3.57	3.29	0.27	31/03/2006
LBH06 UBS Property Benchmark										

Market Value Summary - Three Months

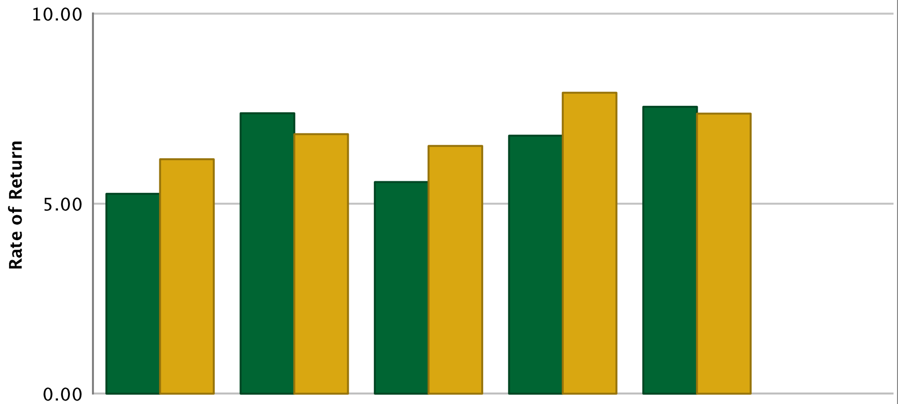
Account/Group	31/03/2016 Market Value GBP GOF	Net Contribution*	Income	Fees	Appreciation	30/06/2016 Market Value GBP GOF
London Borough of Hillingdon	**809,140,479**	**-499,999**	**4,393,228**	**0**	**33,131,781**	**846,165,489**
Adam Street	19,195,306	-1,116,734	0	0	1,069,855	19,148,428
AEW UK	36,191,586	0	613,110	0	343,444	37,148,140
Cash & Other Assets	4,623,003	-3,493,003	1,522	0	146,565	1,278,087
GMO Global	62,040,984	-3,000,000	0	0	165,335	59,206,319
JP Morgan	36,602,574	0	0	0	1,061,901	37,664,475
Kempen	87,317,171	-86,962,042	61,173	0	-410,654	5,648
LGT	10,828,307	-892,510	-98	0	926,271	10,861,970
London CIV Ruffer	92,876,238	1	138,477	0	3,366,596	96,381,312
M&G Investments	39,069,580	0	222	0	1,896,199	40,966,002
Macquarie	18,943,562	1,475,711	-443	0	2,182,830	22,601,659
Newton	30,395,510	86,657,463	0	0	8,912,808	125,965,781
Premira Credit	20,345,263	7,864,705	0	0	-1	28,209,967
SSGA	158,294,560	0	0	0	10,041,266	168,335,825
State Street Gilts	21,851,933	0	0	0	2,920,247	24,772,180
State street tansition A/c		311,314	124,757	0	-309,496	126,575
UBS	97,937,021	0	1,479,915	0	3,176,461	102,593,396
UBS Property	72,627,269	-1,344,904	1,974,532	0	-2,357,871	70,899,026
UBS Tactical	612	0	62	0	26	700

**Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.*
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

Northern Trust

Historical Performance

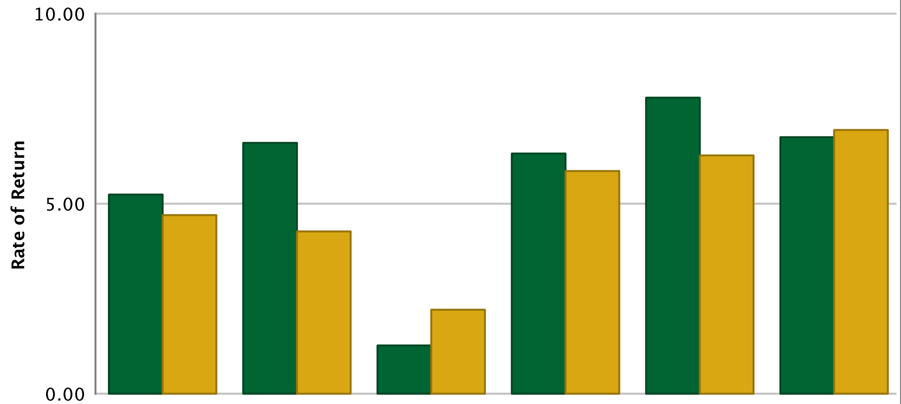
Equity



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.26	7.38	5.57	6.79	7.55	-
Index	6.17	6.83	6.52	7.92	7.37	-

Index: Total Equity Benchmark

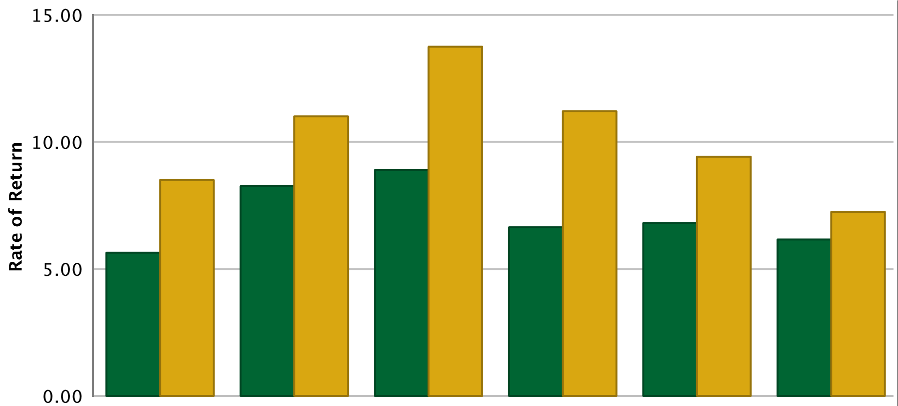
United Kingdom



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.24	6.60	1.27	6.32	7.79	6.75
Index	4.70	4.27	2.21	5.86	6.27	6.94

Index: FTSE All Share UK Equity

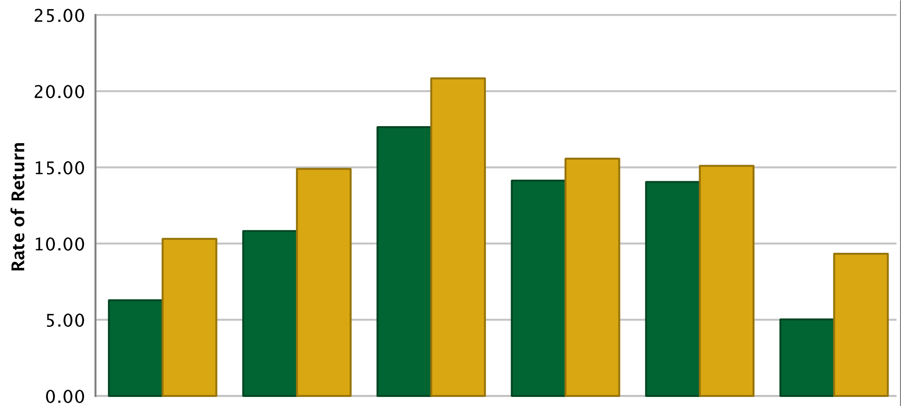
Overseas Equities



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.64	8.26	8.89	6.64	6.81	6.16
Index	8.50	11.01	13.75	11.21	9.42	7.25

Index: Total O'seas Equity Benchmark

North America

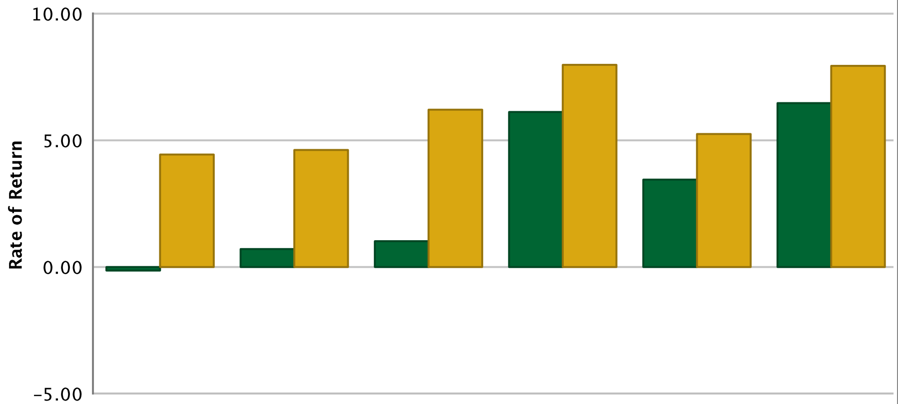


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.28	10.82	17.64	14.13	14.04	5.02
Index	10.31	14.90	20.84	15.57	15.10	9.33

Index: FTSE North America

Historical Performance

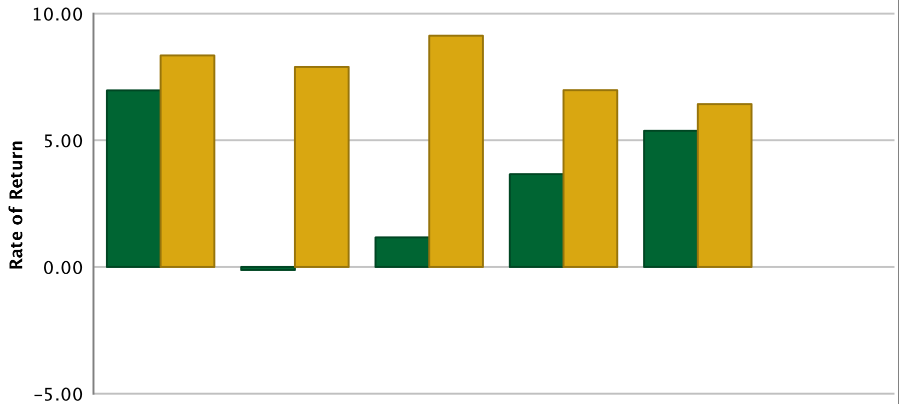
Europe ex UK



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.14	0.71	1.02	6.12	3.45	6.47
Index	4.44	4.62	6.21	7.98	5.25	7.94

Index: FTSE AW Dev Europe ex UK

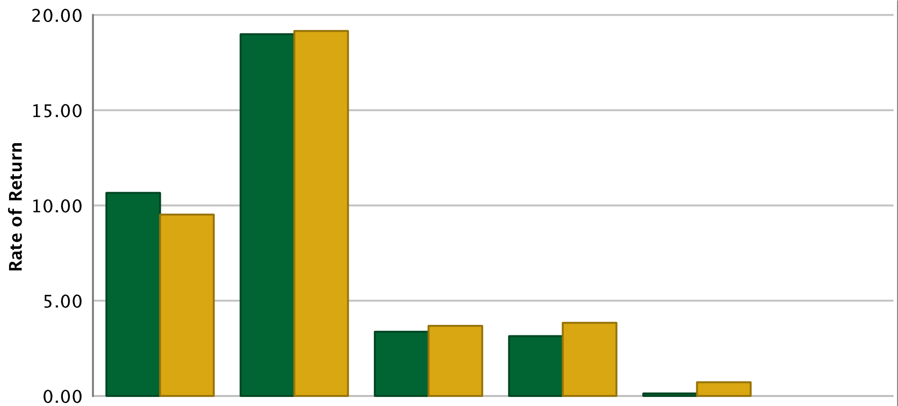
Asia Pacific inc Japan



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.97	-0.12	1.17	3.66	5.38	-
Index	8.35	7.90	9.13	6.98	6.43	-

Index: FTSE AW Dev Asia Pacific

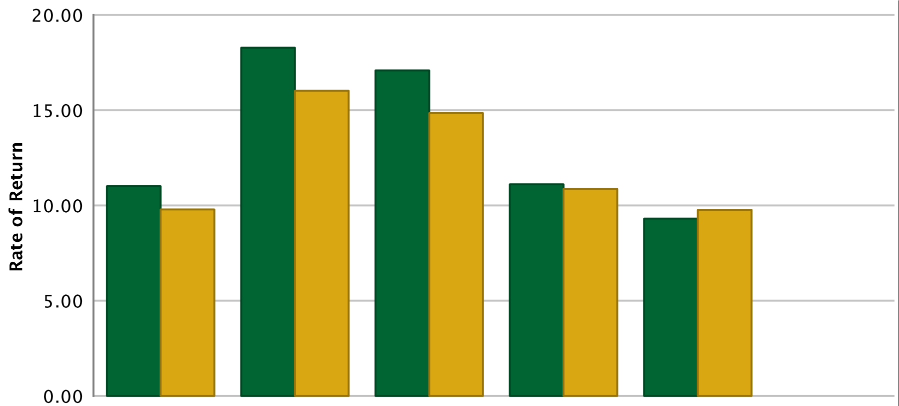
Emerging Markets



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	10.66	18.99	3.37	3.14	0.13	-
Index	9.52	19.16	3.68	3.84	0.72	-

Index: LBH Emerging Markets

Index Linked Gilts



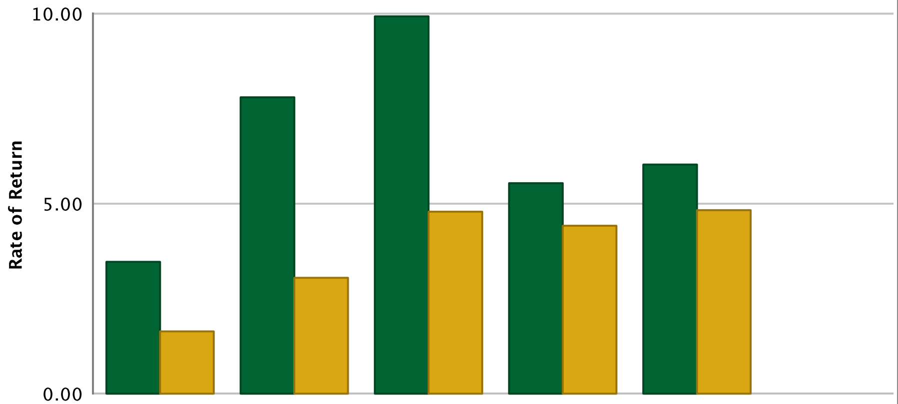
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	11.01	18.28	17.09	11.11	9.31	-
Index	9.79	16.02	14.85	10.87	9.77	-

Index: LBH Index Linked Benchmark

Northern Trust

Historical Performance

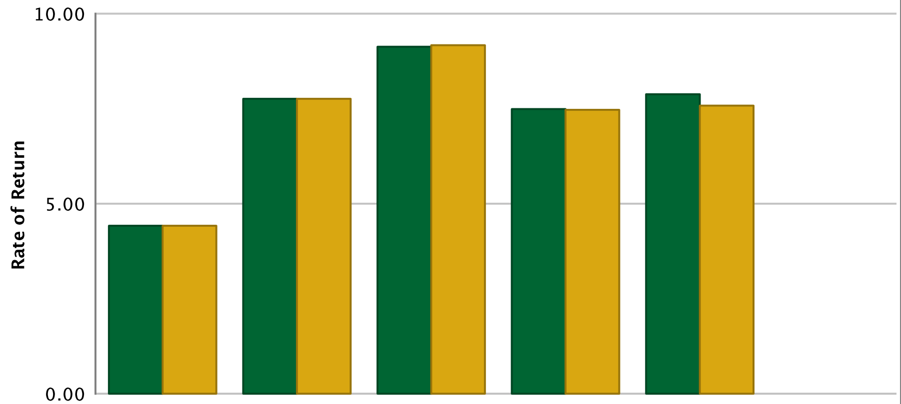
Fixed Income



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	3.47	7.80	9.93	5.54	6.03	-
Index	1.64	3.05	4.79	4.42	4.83	-

Index: LBH Fixed Income Benchmark

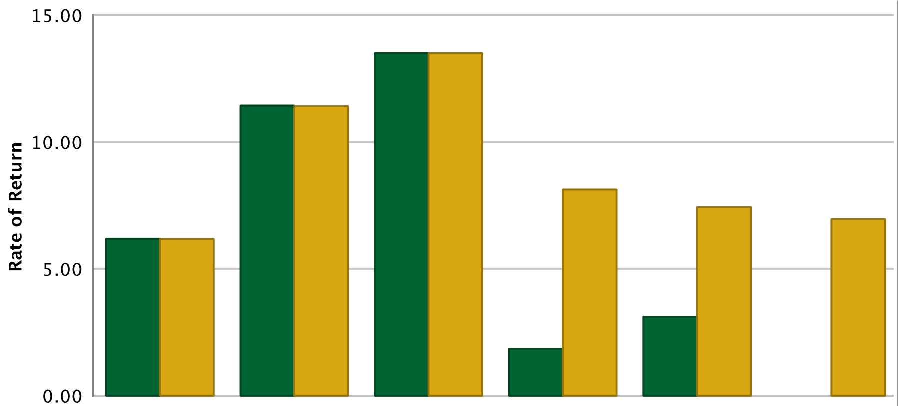
Corporates



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.42	7.76	9.13	7.49	7.88	-
Index	4.42	7.76	9.17	7.47	7.58	-

Index: LBH Non-Gilts Benchmark

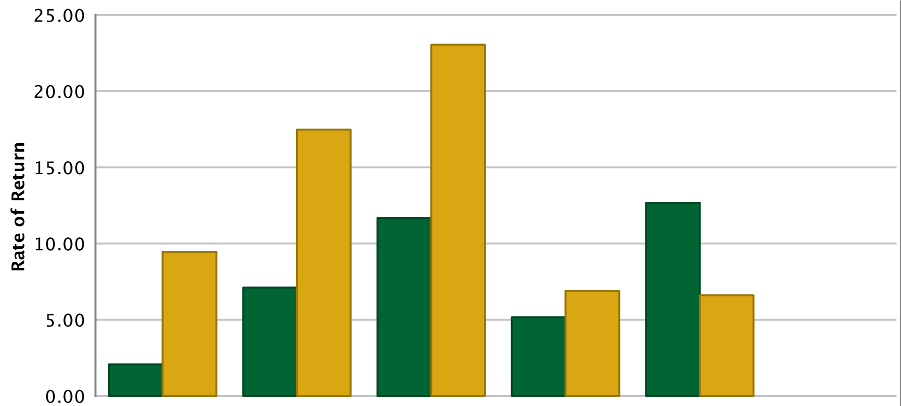
Government Bonds



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.19	11.44	13.50	1.85	3.11	-
Index	6.18	11.41	13.50	8.13	7.43	6.96

Index: FTSE All Stock Index

Inflation Linked Bonds

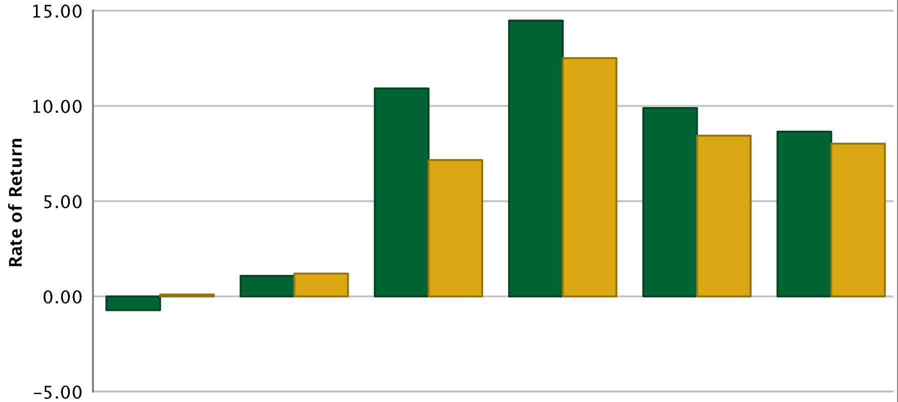


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	2.07	7.11	11.67	5.16	12.68	-
Index	9.46	17.48	23.05	6.90	6.60	-

Index: Barclays Global Inflation Link

Historical Performance

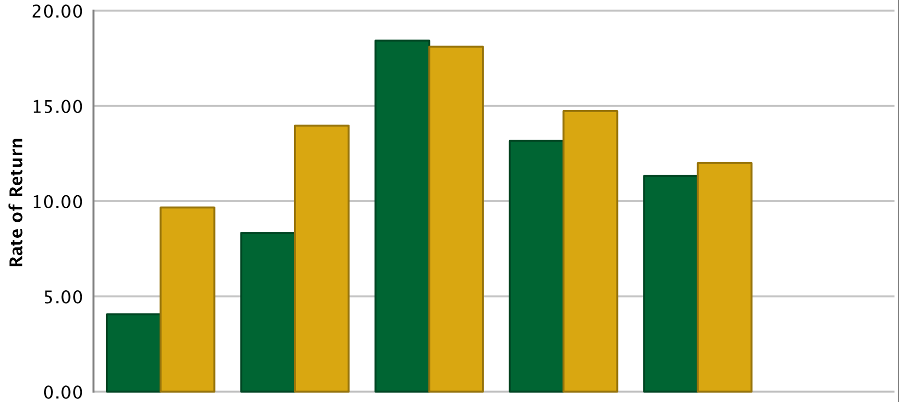
Real Estates



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.72	1.08	10.92	14.48	9.89	8.65
Index	0.10	1.20	7.16	12.51	8.44	8.02

Index: IPD UK PPFI All Bal Funds Index

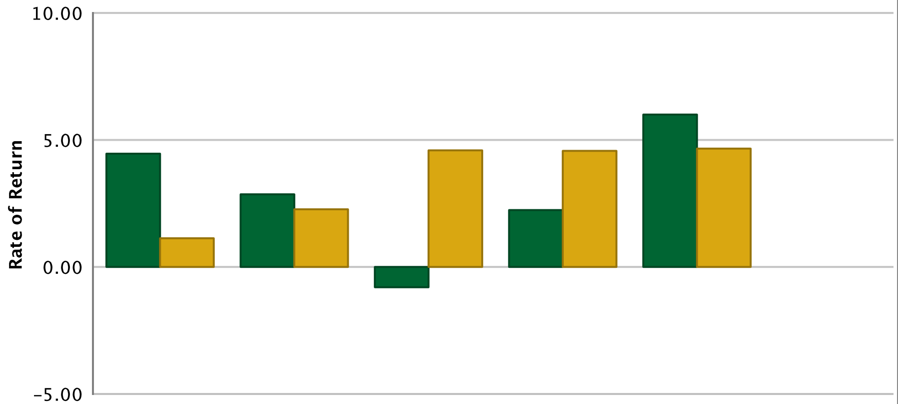
Private Equity



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.06	8.34	18.43	13.17	11.33	-
Index	9.67	13.97	18.11	14.73	12.00	-

Index: Private Equity Benchmark

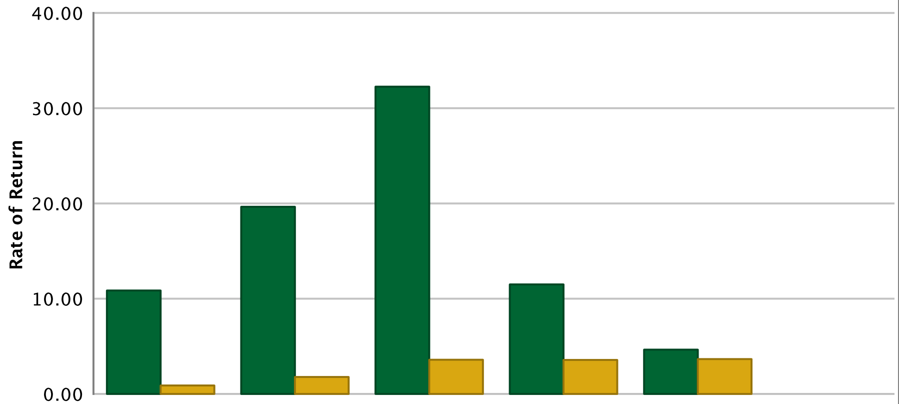
Hedge Funds



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	4.46	2.86	-0.80	2.24	6.00	-
Index	1.13	2.27	4.59	4.57	4.66	-

Index: LIBOR GBP 3 Month +4%

Infrastructure



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	10.86	19.65	32.26	11.50	4.65	-
Index	0.89	1.78	3.59	3.57	3.66	-

Index: Infrastructure Benchmark

Benchmark Composition

Total Plan Benchmark

24.2	FTSE All Share
2.3	FTSE AW North America
2.2	FTSE AW Developed Europe ex UK
2.2	FTSE AW Developed Asia Pacific
0.6	FTSE All World All Emerging
14.1	FTSE World Index +2%
1.9	FTSE Index Linked Gilts
1.7	BC Sterling Aggregate 100mm Non Gilts
0.3	FTSE All Stock Index
10.3	IPD UK PPFI All Balanced Funds Index
6.0	LIBOR 3 Month + 3%
11.9	LIBOR 3 Month
4.7	MSCI All Countries World Index
4.3	FTSE Index Linked Gilts 15+ Years
8.6	OECD CPI G7 (GBP) Index
4.7	LIBOR 3 Month + 4%

AEW UK

100.0	IPD UK PPFI All Balanced Funds Index

GMO Global

100.0	OECD CPI G7 (GBP) Index

JP Morgan

100.0	LIBOR 3 Month + 3%

M&G Investments

100.0	LIBOR 3 Month + 4%

Macquarie

100.0	LIBOR 3 Month + 3%

Newton

100.0	FTSE World Index +2%

Permira Credit

100.0	LIBOR 3 Month + 4%

Ruffer

100.0	3 Month Sterling LIBOR

SSGA

44.0	FTSE All Share
11.0	FTSE World North America
11.0	FTSE World Europe ex UK
11.0	FTSE Pacific Basin ex Japan
10.0	FTSE Index Linked Gilts
8.5	ML Sterling Non-Gilts
3.0	FTSE All World All Emerging
1.5	FTSE Gilts All Stocks

State Street Gilts

100.0	FTSE Index Linked Gilts 15+ Years

UBS

100.0	FTSE All Share

UBS Property

100.0	IPD UK PPFI All Balanced Funds Index

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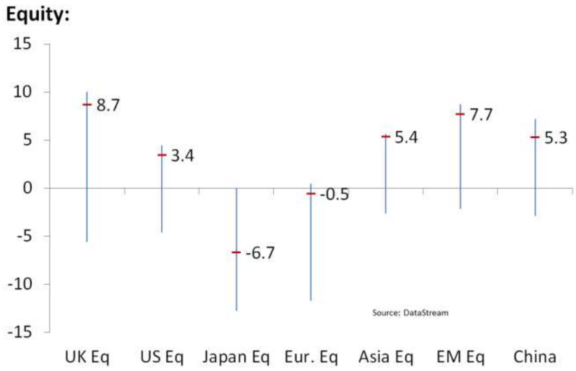
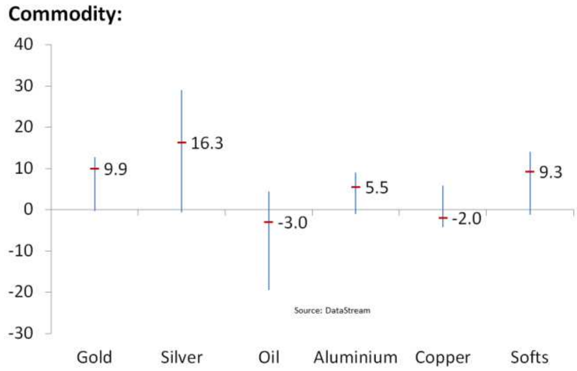
Market Backdrop

This note is intended to support the discussion at the upcoming meeting of the Hillingdon Pension Fund (HPF) Pension Committee.

Market Movements

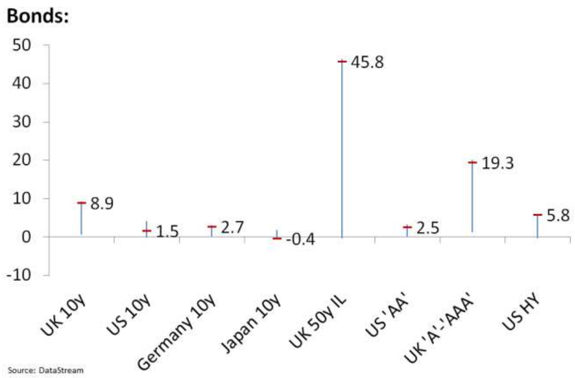
The figures below describe the % performance of various markets from the end of May to 26 August 2016. As an example, UK equities have risen by 8.7% over the period having been 10% higher and 5% lower in the interim; markets have been lively.

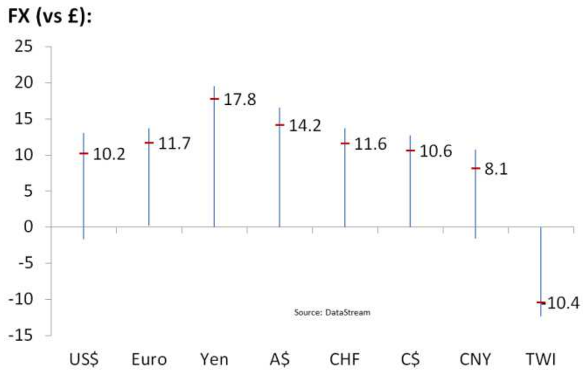




Equity markets generally traded in a 10-15% range hitting their lows on the day of the UK Referendum result; since then, Japan and Europe apart, indices have moved to reach period highs. The UK market, supported by currency depreciation and a sense of relief, has posted strong gains. Supported by easing credit conditions, Chinese equities have also performed well.

Commodity markets have been mixed. The environment was positive for precious metals (built out of the return of more expansionary policies in Europe, Japan and now the UK) while softs rose mostly on weather effects. Oil prices have traded in a 25% range hitting a low point just 3 weeks ago before rallying on hopes that stockpiles will start to reduce and that an OPEC accord (to limit production) will emerge.





The UK apart, bonds generally traded in ranges and delivered performance consistent with their historic norms. Despite standing on already very low yield levels and fuelled by the easier monetary stance being adopted by the Bank of England, the gains on ultra-long UK index-linked bonds and corporate credit were spectacular – unfortunately this implies a similar increase in the value of the HPF's liabilities. US high yield returns were led by the recovery in sentiment within the energy related portion of that market.

The Pound trade weighted index (TWI) fell sharply following the Referendum across the board as traders absorbed the prospect of a recession in H2 and the 'compensation' arguably required to offset the UK's external deficit. Safe-haven attributes (particularly its current account surplus) saw the Japanese Yen rise sharply (hitting Japanese equities)

Consensus expectations – economic growth and inflation

The economic outlook as we entered 2016 was broadly constructive. Growth in the US and UK was expected to stabilise (at levels above trend potential) and modest increases in activity were expected in Europe (as the supportive conditions of 2015 persisted) and also in Japan (as policy stimulus was added).

The first table below details the latest consensus forecasts[1] for real growth across the major economies for 2016 and 2017. The changes to these forecasts over 2016 are detailed; with the exception of China, expectations for 2016 have experienced a broad write-down. The constructive tone has gone.

The UK economy is judged to be impacted quite heavily by the decision to leave the EU even though there is no timetable for departure; the impact is seen most clearly in the forecasts for 2017 when very limited growth is expected. It is this backdrop and survey evidence pointing to increases in unemployment that has encouraged the Bank of England to ease monetary conditions. The current account deficit remains the key point of weakness for the UK.

The US economy in Q1 repeated the lacklustre performance of the fourth quarter of 2015 to register growth at an annualised rate of just 0.8% and initial estimates for Q2 suggest growth of just 1.2% with only consumer demand supporting activity.

The Japanese economy continues to be highly dependent on fresh policy stimuli; Japanese policymakers have surprised markets in the past year with their lack of new measures. Some adjustments have been announced – most notably the deferral of the next VAT hike until ahead of the Tokyo Olympics (when Games-induced activity is expected to be strong). The recent success for the ruling party in the Upper House elections is being followed by a fresh wave of *Abenomics*. Investors will hope that the impact lasts longer than the previous package particularly in terms of lifting wages but, with the fiscal stimulus suggested to be limited to 1% of GDP, there is scope for disappointment.

Chinese growth rates have stabilised in response to fresh policy relaxation, a (slightly) lower exchange rate and higher levels of public spending. The challenges facing China (in its Property and credit markets) remain acute; currency devaluation is set to remain a central part of their remedial efforts.

Table 1: Consensus forecasts – Real GDP growth (%)

	2015	2016	Change since end 2015	2017	Change since end 2015
US	2.4	1.5	-1.0	2.2	-0.2
Eurozone	1.5	1.5	-0.2	1.2	-0.5
UK	2.2	1.6	-0.7	0.6	-1.6
Japan	0.6	0.5	-0.6	0.7	0.1
China	6.9	6.5	0	6.3	0

The world economy remains 'tired'. Debt levels have grown since the crisis of 2008/09, demographic trends are lifting provision costs with plunging solvency levels drawing capital away from more productive uses and surplus capacity has been added when shrinkage was required. Central bankers have made various calls to

[1] Based on a range of forecasts provided by economists to Bloomberg as at 26 August

governments to support their efforts through a more expansionary set of fiscal policies; hitherto these calls have been ignored. The new UK Government, working to support the domestic economy through the spasm of *Brexit,* may prove to be the major economy to deliver fiscal support (to the relaunch of QE and lower base rate). Overall, a growth surge looks highly unlikely but a period of better reports is possible. More than anything, the world still needs a faster pace of economic growth.

The outlook for inflation in 2016 is for prices in the EU to rise at a marginally slower pace - this is consistent with the slower GDP growth rates expected (Table 2). The sharpest adjustment for 2016/17 has occurred in Japan where inflation forecasts have been slashed; a far cry from the much heralded 2% target of *Abe-nomics*. The reasons for the downshift are principally the unexpected and (for Japan) unwelcome rise in the Japanese Yen and, related, the weaker path of economic growth. In the US the outlook has changed little due, in part, to the resilient labour market – jobs are still being created. UK inflation in 2017 is expected to get a lift from the weaker exchange rate.

Table 2: Consensus forecasts – Inflation (CPI, %)

	2015	2016	Change since end 2015	2017	Change since end 2015
US	1.3	1.7	0.1	1.8	0
Eurozone	0.1	0.3	-0.7	1.3	-0.2
UK	0.1	0.7	-0.6	2.2	0.4
Japan	0.8	-0.1	-0.9	0.7	-1.3
China	1.5	2.0	0.3	2.0	0

The main take-away remains that inflation, this year and next and out-with the UK, is not expected to attain central bank targets. It will be interesting to learn whether the UK experiences a significant period of import-led inflation; long term UK history suggests that it will. International experience since the financial crisis suggests otherwise.

While projected inflation rates (many years ahead) may cause central bankers some concern, actual inflation is unlikely to be a problem and should not influence the general asset strategy for the Fund. That said, some specific measures may be required if the fiscal taps are turned on.

Short and long term interest rates

Arguably, the most significant interest rate market development in 2016 has involved policymakers in the UK and the US (in particular). Markets have not given the US Federal Reserve permission to validate their projected profile for the Fed Funds Rate - expectations of higher US policy rates in 2016 have all but evaporated, and any thoughts of a rate hike in the UK have been dashed following the recent 0.25% cut in base rates (Table 3).

Table 3: Consensus forecasts – main policy setting at year end (%)

	2015	Latest	2016	2017
US Fed	0.38	0.38	0.65	1.25

ECB	-0.30	-0.40	-0.40	-0.40
BoE	0.50	0.25	0.15	0.15
BoJ	0.10	-0.10	-0.10	-0.20

In Europe, policy rates have been moved further into negative territory. While the actual Eurozone rate is not at the low maintained in Switzerland (-0.75%), the ECB have suggested that it will be difficult to move lower. Given the problems of the Italian banking industry, further reductions are possible.

Longer term bond yields have fallen sharply this year (Table 4). Ten-year yields in Europe and Japan have breached zero and 33% of all hard currency bonds are now on negative yields; the proportion in Europe is 49%. **None of this supports the idea that bond markets will soon normalise.**

Table 4: Consensus forecasts – Ten year government bond yield at year end (%)

	2015	Latest	2016	2017
US	2.3	1.58	1.65	2.19
Eurozone	0.6	-0.03	-0.02	0.37
UK	1.9	0.62	0.84	1.15
Japan	0.3	-0.08	-0.19	-0.10

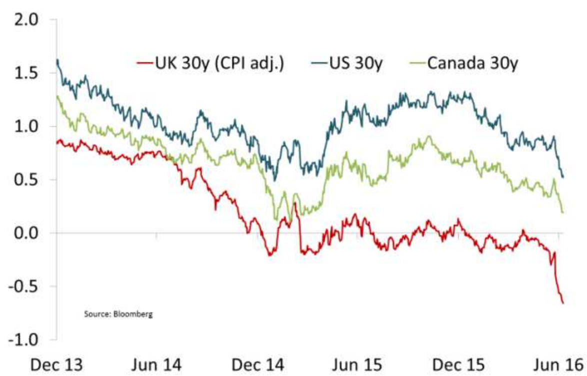
A striking feature of bond markets this year has been the rapid acceleration in the downshift in long duration yields. The plunge in long yields in Germany and Japan has brought 0% into reach which would have been unimaginable even just a few quarters ago. *Brexit* may have exacerbated the move but the trend was already in place. Markets in the US and UK maintain a broad premium to the Eurozone and Japan but it is to be supposed that if the MPC and Fed were to relaunch QE then the lower levels would become a market target.

These moves have been fully reflected in the inflation-protected bond markets (Chart B1). The yield on ultra-long UK index-linked bonds is now minus 1.5%. To illustrate the impact of this, consider that the price of the longest dated UK IL bond is currently 232. If inflation were to be zero for the next 52 years then the Government of the day will give you back just under 105. That's just 45p in the £; mind you, will have received about 6p in interest, in total, between now and 2068!

Unless inflation is going to return with a vengeance - and with all the monetary accommodation of recent years that cannot be discounted, the real yield markets are in a bubble. The problem with bubbles is that valuation considerations have long since gone – there is little fresh challenge to real yields of -2.5% from those that can be levelled at -1.5% (but the consequences on the likes of pension funds are significantly different).

The time will come for a career-defining sale of government bonds. The trick will be to know when that is!

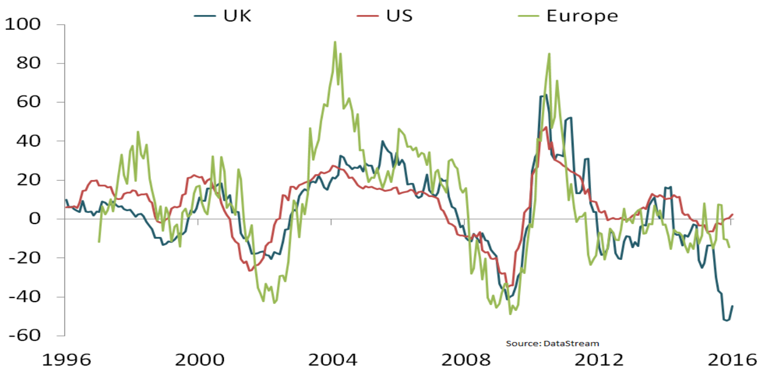
Chart B1: 30-year government bond real yield (%)



Equities

In assessing the outlook for equity markets it is useful to examine the trend in consensus forecast earnings per share (EPS). The chart below details how the EPS for the UK, US, European and Japan equity markets have evolved over the past twenty years; they chime with the economic cycle. Generally, corporate profits growth since the end of the financial crisis has been much less spectacular than the lift in indices would suggest. The slip in £ looks to be allowing some recovery in earnings – apparently at Europe's expense. Falling earnings has been an issue in the US in recent quarters; a return to rising eps has recently taken place.

Chart E1: Experienced earnings per share growth



Looking beyond the next financial year, equity analysts generally remain optimistic (Table 5); although it should be remembered that analysts are rarely pessimistic and that they failed to spot the weakness shown in Chart E1. In Japan, estimates have risen (after previous weakness); elsewhere estimated growth has consolidated.

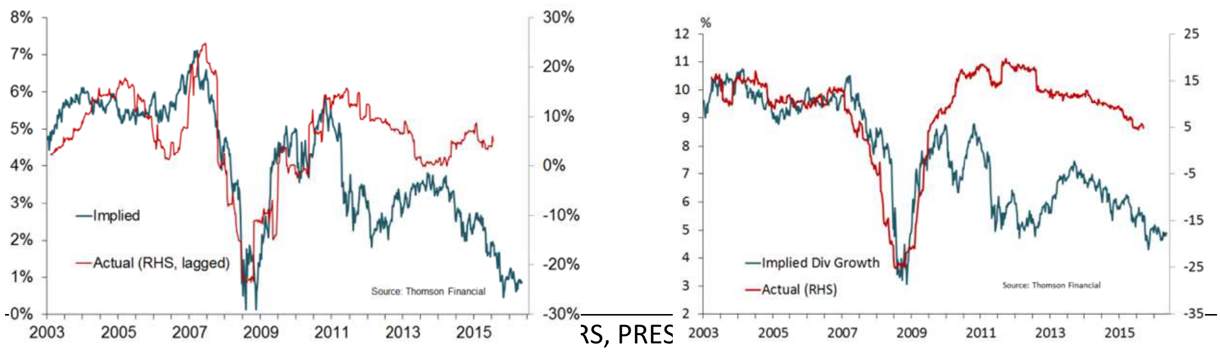
Table 5: Consensus EPS growth forecasts – second and third financial years with change from previous quarter (source: DataStream)

	UK	US	Japan	Europe
FY2	16% (u/c)	13% (-1%)	10% (+1%)	13% (-1%)
FY3	13% (+1%)	12% (-1%)	8% (+1%)	11% (u/c)

There are numerous ways of valuing equity markets. A preferred measure is the implied level of dividend growth required to break-even relative to the alternative of investing in bonds (Charts E2 and E3). In both the UK and US market the required level of long-term dividend growth looks to be modest in absolute terms and against what has been delivered.

The earnings backdrop may recently have been challenging but equity markets should still be preferred to bonds.

Charts E2 and E3: UK (FT All Share, left chart) and US (S&P Composite, right chart) implied dividend growth



Foreign currency markets

Competitive currency devaluation has become a dominant feature of the FX landscape in recent years as attempts to revive domestic economies from within have floundered/failed. The associated growth rebalancing has merit while those economies being competed against are able to take the strain. As 2016 has shown it became increasingly clear that the UK and the US were struggling to carry the burden of supporting global growth. Consistent with the growth transfer is the operation of external deficits/ lower surpluses. Unfortunately those seeking external demand support – the Eurozone and Japan - already operate substantial current account surpluses (Chart F1); this is where the competitive devaluation logic fails. One of the consequences is that when risk appetite falls sharply investors rush to acquire the currencies of surplus nations i.e. the Euro and Japanese Yen. Following *Brexit* the Yen has been particularly strong (the € was too close to the event to be regarded as a safe-haven).

June 23rd marked the day when much changed for the UK. The decision to leave the EU saw the £ fall sharply on the foreign exchanges (Chart F2). The external deficit has long been a significant weakness for the UK and one best addressed by a slower domestic economy and a lower currency. Pre-*Brexit,* these conditions were very difficult to generate (for economic and political reasons). The Referendum result has effectively catalysed a 'fast-track' process of adjustment that will initially prove painful but should ultimately restore a better balance to the economy. Whether the overall level of the economy is higher or lower will depend on myriad factors not least the 'divorce' settlement that the country eventually reaches with the EU. In the meantime one thing seems clear: the Bank of England will strive to underwrite currency weakness by keeping policy loose and maintain the significant pricing edge that the UK would now seem to hold (Chart F3).

Chart F1: Current account deficits (% of GDP)

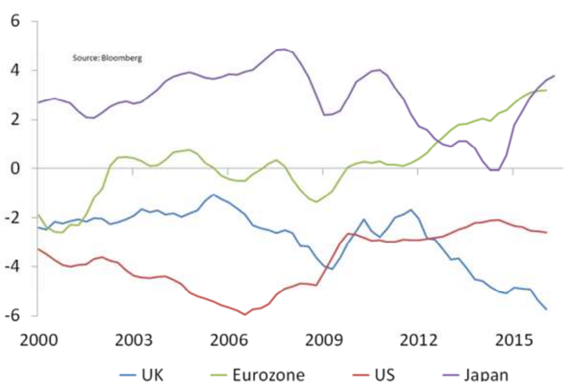


Chart F2: £ Trade-weighted Index

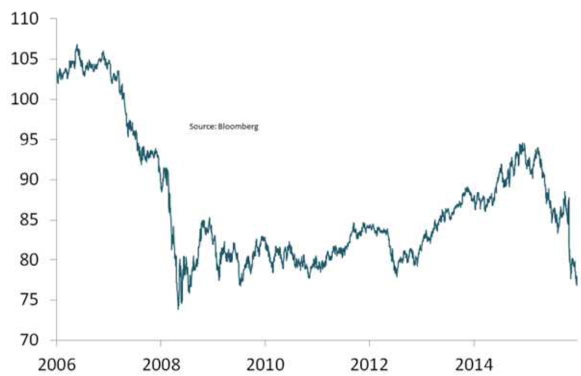
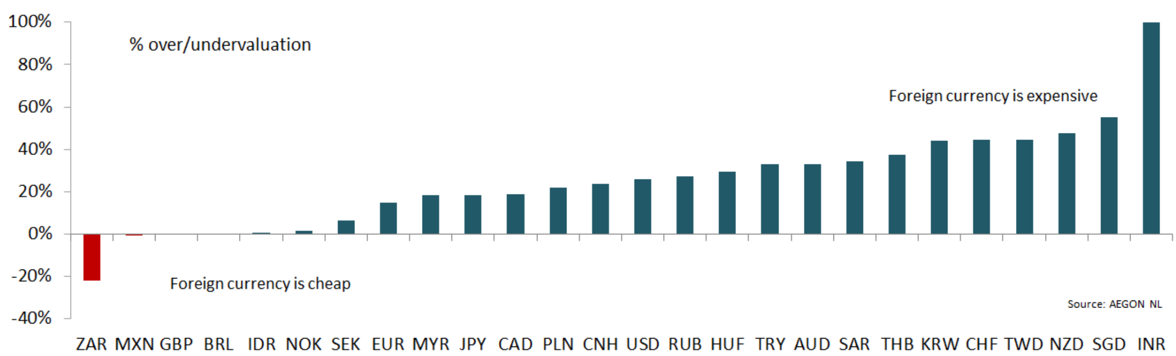


Chart F3: FX valuation vs £ (on PPP basis)



Note: Under PPP a trend or neutral exchange rate is derived and evolved according to shifts in inflation rate differentials. Spot currency levels are then compared against this neutral exchange rate – where the inflation adjusted cost in goods and services should be equivalent in both countries. On this basis, the Indian Rupee is currently very expensive relative to £ while *the South Africa Rand is very cheap. It must be remembered that valuation measures such as PPP are of little use in determining market movements in the near term. Currencies can and do remain misaligned for extended periods.*

Gold

As the currency of last resort and the ultimate store of value, Gold was held as an investment for millennia and obviously long before our modern system of financial and investment markets. Not generating any yield and being hardly portable, its use within a modern balanced portfolio has diminished significantly in the decades past and now few investors, comparable to the Pension Fund, maintain any exposure.

Standing back, the investment case has three forms: as a return enhancer, as a diversifier and as a risk mitigant in times of market stress. Gold has proved to be most useful when not maintained as a core holding in a balanced portfolio. If economies and markets are thought to be headed for some significant turbulence then a weighting is advisable, especially when the defensive alternative of government bonds are so expensively rated – holding UK 50 year index-linked guarantees a real loss of around 50%.

The price of gold has enjoyed a recovery in recent months. This has been accompanied by an increase in the quantity of gold held by Gold ETFs (Chart G1). A similarly strong relationship exists between Gold and the aggregate market value of gold mining companies (as captured by a miner ETF – Chart G2).

Chart G1: Gold and holdings in Gold ETFs

Chart G2: Gold and a gold miner ETF

This turn in Gold has chimed with the progress in long dated US real yields – confirmation that investors have inflation protection in mind (Chart G3). Further, and until recently, Gold has traded inversely with the broad value of the US$: when the paper currency of last resort falls out of favour, investors turn to Gold (Chart G4).

Chart G3: Gold and US real yields (%)

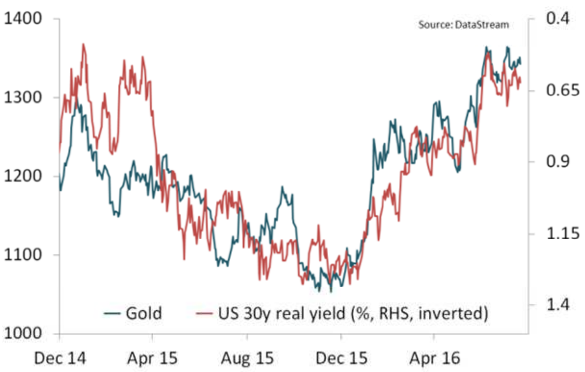
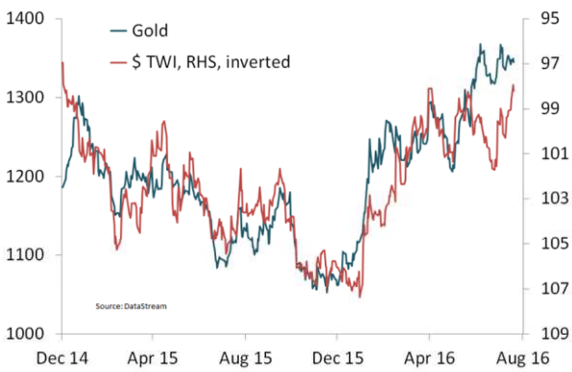


Chart G4: Gold and the US$



Those who currently favour holding Gold typically believe that inflation will surge (in a belated response to QE etc) or that a monetary disorder, that envelops the US economy, lies ahead. In either of these scenarios it is highly likely that Gold will rise in value – perhaps appreciably. If neither scenario develops - and monetary policies aren't tightened, then Gold should flat-line. That said, the holding cost of Gold – while interest rates are at current levels – is close to zero.

Given the current backdrop some exposure to Gold remains warranted; Gold 'miners' are a leveraged means of acquiring proxy exposure. A stronger $ could be a problem.

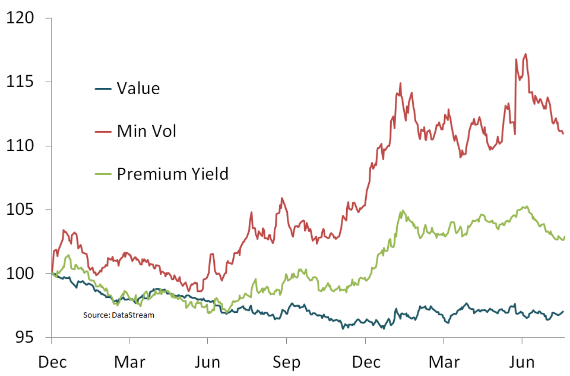
Style Focus

Appetite to find clever ways of beating the equity market remains undiminished and so the pursuit of so-called *smart betas* is strong. In reality these are style filters no smarter than was the designation, thirty years ago, of *value* and *growth*. Chart S1 describes the relative performance of three common *smart betas*: (traditional) value, high dividend and minimum volatility (risk). Markets continue to reward defensive strategies.

Value has struggled for several years and continues to do so. The 'blame' lies in the need for higher levels of global economic activity to restore corporate performance to a number of erstwhile 'valuable' (cheap) companies. Higher yielding companies have continued to perform consistent with the yield declines seen across bond markets; many of these companies have acquired the designation of 'bond proxies'.

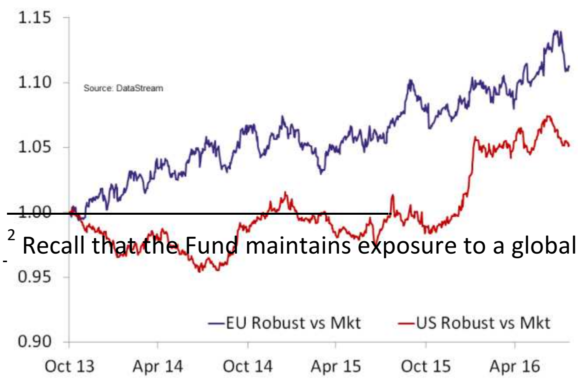
The low risk style remains the standout performer. In ETF form this spans over 300 companies from across the globe with lower than average trailing volatility. Styles derived on trailing price performance normally work well on paper and rather less so in practice; Min Vol has, thus far, defied that generalisation. ['Min vol' typically captures companies with a high free cash flow yield.]

Chart S1: Recent performance of three global equity styles (vs MSCI AC)



A preferred style is a variation of the higher yield style – those companies with a long track record of growing dividends across multiple economic and market cycles; not high yield but robust (or resilient) payers[2]. In recent quarters, proven dividend payers have performed well in Europe; when conditions across the broader market have been tough, investors have favoured the more secure companies. The attractions of resilient dividend stocks have been increased by *Brexit.* In the US, the improvement in the robust style that occurred when it became clear that the FOMC would not easily be able to deliver on their projected policy path has continued. As markets moved to highs recently, investor sentiment toward more growth oriented companies has improved and brought some consolidation in yield themed strategy performance (Chart S2).

Chart S2: Recent performance of 'robust' yield payers in Europe and US (vs local market)



[2] Recall that the Fund maintains exposure to a global resilient-dividend-themed equity strategy (Newton).

The Fund is recommended to sustain a strong weighting to equities characterised by robust dividend yields.

Feature: Brexit

The UK Referendum has catalysed a very British revolution, the effects of which are only just starting to emerge. This is happening at a time when almost all financial commentators judge equity markets to be expensive or very expensive; although higher valuation multiples can be argued because of the very low level of interest rates, the deterioration evident in corporate profitability (Chart E1) is hard to ignore and challenging to share prices. Almost all shocks to the status quo in markets involve an initial negative reaction. *Brexit* has occurred at a time when the deflation pressures on the world economy were already strong. Bad policy reactions now could easily turn this drama into a crisis. Fortunately, the initial policy response has been encouraging and (much) lower bond yields have delivered strong support to risk markets.

A sample of the forecast impact on the UK economy from it ceasing to be in the EU prepared ahead of the vote is given Chart A. Inevitably, the range of suggested outcomes is wide but the negative bias is clear. Early readings on consumer and corporate sentiment, post the vote, point to a mild recession over H2, 2016; it is premature, however, to conclude too much from readings that may simply reflect knee-jerk reactions.

Fearful of a sharp deterioration in the UK labour market, the Bank of England has recently halved the base lending rate (to 0.25%), restarted asset purchases (of gilts and corporate bonds) and launched a fresh and substantial 'funding for lending' programme. Arguably, they are recognising a key lesson of the post-financial crisis era: policy moves initiated too late or too timidly are wasted. That doesn't necessarily mean that the eventual out-turn will be any better but it is surely worth trying to be more pro-active. The sharp £ currency devaluation (Chart F2) has created the platform for a fast-track attack on the UK's dreadful external deficit (Chart F1). It would have been a huge disappointment if the Bank of England had failed to act to try to lock in this competitive improvement.

Chart A: Impact of a 'leave' vote for the UK economy

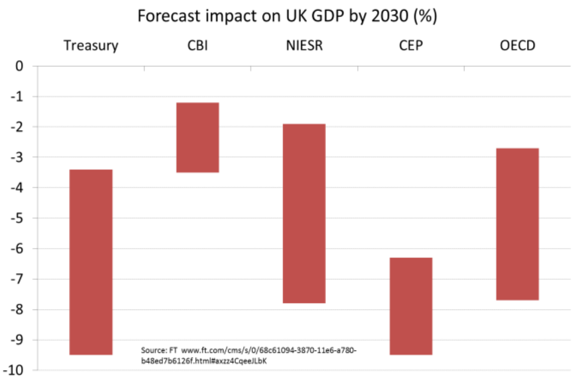


Chart B: UK Large cap, small cap vs All cap and £

At the time of writing the broad UK equity market is 7.3% higher than the close on June 23rd, a change broadly comparable with international indices (in local currency terms). On a narrower basis there has been a huge divergence between small cap and large cap stocks (shown relative to the FT All Share) – Chart B; small caps are more exposed to the domestic economy and investors have moved swiftly to anticipate a mild recession. Curiously the scale of the relative underperformance of small caps initially matched the downshift in £ (which has bolstered the earnings outlook for the more internationally oriented large caps).

Two of the major possible consequences of *Brexit* involve Europe and UK fiscal policy. If the UK's move eventually catalyses similar votes across other member states in the EU and renewed strains emerge within the Eurozone then the continued existence of the € would be in doubt. The way in which the EU deal with the problems in the Italian banking system and that government's plan to inject capital will likely prove a useful test of support for the EU from within.

More positively, if the change of administration in the UK marks an end to the age of austerity – with the government embarking on a fiscal expansion the like of which central bankers have been requesting - then investor attitudes to domestic corporate exposure would quickly become much more positive than the initial reaction captured in Chart B. The rising optimism surrounding fiscal relaxation is evident in the improvement in the relative performance of '250' stocks in recent weeks.

My wish-list post-*Brexit* would be complete if means are found to relieve the destructive pressure on pension funds and insurance companies from the relentless plunge in long duration bond yields.

There are bargains to be had in UK domestic plays especially if fiscal policy is loosened; sector baskets bought on 'bad days' may be the best way to exploit these.

Summary

Risk markets are enjoying the boost that comes from (much) lower long term discounts rates without yet having to face the hard evidence as to why those rates have fallen. It is to be hoped that we are either at or near the point where electorate unrest forces governments to heed the pleas of central bankers: support our ever more imaginative monetary efforts through fiscal policy. In this sense we may be at the 'make or break' point in the post-GFC era. Against this backdrop risk markets have had a better summer than has been their norm; over the Autumn delivery on policy expectations will prove critical.

One of the features of H1, 2016 has been that despite strong risk rallies, defensive investments (bonds, resilient equity yield plays, gold etc) have conceded little ground. If this continues to be the case then it should be clear that deep underlying concerns remain. In the year ahead these will probably involve some or all of the following:

- China – credit, property bubbles and the means by which it detaches itself further from the strong US$,
- energy prices – the oil price has very recently rolled over, sustained weakness would be a problem,
- EU worries – centred on longer term impact of the British referendum result, challenges within the Italian banking system (as a test case for any new-found EU flexibility) and the French Presidential election (in 2017),
- policy error – emboldened by the level of equities and some better data, the US Fed tighten too quickly
- defaults – there emerges a 'tail' to the impact of low oil prices in the US high yield bond market.

Darker scenarios involve investors starting to penalise those markets and economies grown dependent of unbridled quantitative easing and also the highly problematic process by which cash investors try to transition back to their natural habitat from corporate bonds, equities and property. Hopefully, these prove problems for another day.

Scott M Jamieson, August 2016

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LONDON BOROUGH OF HILLINGDON ALTERNATIVE INVESTMENTS SCHEDULE AS AT 30 June 2016

LBH PRIVATE EQUITY FUNDS	COMMITMENTS BASE CURRENCY	% of Fund	CALLED TO DATE	% of Fund	DISTRIBUTIONS RECEIVED	% of Fund	NET CURRENT INVESTMENT	% of Fund	IRR
LGT CAPITAL PARTNERS									
	£	**%**	**£**	**%**	**£**	**%**	**£**	**%**	**%**
	000		**000**		**000**		**000**		Jun-16
Crown Private Equity European Buyout Opport.	11,299	1.34	9,554	1.13	12,467	1.47	-2,913	-0.34	8.81
Crown Global Secondaries Plc (US$)	2,239	0.26	1,960	0.23	2,126	0.25	-166	-0.02	4.45
Crown Private Equity European Fund	4,136	0.49	3,836	0.45	4,014	0.47	-178	-0.02	8.53
Crown Private Equity European Buyout Opport. II	8,272	0.98	6,907	0.82	5,567	0.66	1,340	0.16	8.00
Crown Asia-Pacific Private Equity Plc (US$)	2,239	0.26	2,013	0.24	1,632	0.19	381	0.05	8.00
Crown European Middle Market II plc	3,309	0.39	2,424	0.29	1,860	0.22	564	0.07	10.85
Crown Global Secondaries II Plc (US$)	1,642	0.19	1,350	0.16	1,784	0.21	-434	-0.05	18.36
TOTAL(S) LGT CAPITAL PARTNERS	**33,136**	**3.92**	**28,044**	**3.31**	**29,450**	**3.48**	**-1,406**	**-0.17**	
									Mar-16
ADAMS STREET PARTNERS	**£**	**%**	**£**	**%**	**£**	**%**	**£**	**%**	**%**
Adam Street Partnership Fund - 2005 US Fund	10,449	1.23	10,118	1.20	9,024	1.07	1,094	0.13	6.22
Adam Street Partnership Fund - 2005 Non-U.S Fund	4,478	0.53	4,280	0.51	4,239	0.50	41	0.00	4.72
Adam Street Partnership Fund - 2006 Non-U.S Fund	3,359	0.40	3,213	0.38	2,324	0.27	889	0.11	5.29
Adam Street Partnership 2006 Direct Fund	1,120	0.13	1,100	0.13	1,055	0.12	45	0.01	7.29
Adam Street Partnership Fund - 2006 US Fund, L.P	6,717	0.79	6,404	0.76	5,228	0.62	1,176	0.14	6.32
Adams Street Direct Co-Investment Fund, L.P.	2,239	0.26	2,195	0.26	2,205	0.26	-10	0.00	5.30
Adams Street Partnership 2007 Direct Fund LP	373	0.04	355	0.04	374	0.04	-19	0.00	10.72
Adams Street Partnership - 2007 Non -US Fund	1,306	0.15	1,206	0.14	674	0.08	532	0.06	7.01
Adams Street Partnership - 2007 US Fund	2,052	0.24	1,936	0.23	1,544	0.18	392	0.05	11.03
Adams Street Partnership - 2009 US Fund	1,120	0.13	885	0.10	384	0.05	501	0.06	12.70
Adams Street Partnership - 2009 Direct Fund	224	0.03	210	0.02	155	0.02	55	0.01	15.03
Adams Street Direct Co-Investment Fund II.	1,866	0.22	1,597	0.19	1,748	0.21	-151	-0.02	27.00
Adams Street 2009 Non-US Emerging Mkt Fund	224	0.03	180	0.02	11	0.00	169	0.02	8.10
Adams Street Partnership 2009 Non-US Developed Market	672	0.08	490	0.06	169	0.02	321	0.04	7.59
TOTAL(S) ADAMS STREET PARTNERS FUNDS	**36,199**	**4.28**	**34,169**	**4.04**	**29,134**	**3.44**	**5,035**	**0.60**	

FUND VALUE	**846,165**	
COMMITMENT STRATEGY	74,039	8.75%
TO ACHIVE INVESTMENT	42,308	5.00%
CURRENT INVESTMENT BOOK COST	3,629	0.43%
CURRENT INVESTMENT MARKET VALUE	30,010	3.55%

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London Borough of Hillingdon Pension Fund
Adams Street Partners Update: First Quarter 2016

Market Update

Public equity markets were particularly volatile during the first three months of 2016. In the US, a historically weak start to the year was offset by strength in March, leading to mixed overall results depending on the size and industry focus of respective indices. More broad based indices like the S&P 500 and Russell 3000 were up modestly for the first quarter, while smaller cap or technology-heavy indices like the Russell 2000 and NASDAQ were down. Developed market public equity returns were generally negative, but emerging market public returns were quite strong in the first quarter, supported both by solid local market returns and, in some cases, a currency rebound from distressed levels in the prior calendar year.

Overall venture returns were moderately negative during the first quarter. In late 2015, we began to see signs that the valuation environment was softening, and that trend accelerated into 2016. The IPO window was completely closed for technology companies and only opened for biotech companies late in the quarter. The five venture-backed IPOs in the period represent the lowest quarterly total since 2011. All five IPOs were in the biotech space, making this the first quarter since Q1 2009 without a technology IPO. The size of the offerings was also down, with the five companies raising only $363M in aggregate. Fortunately, M&A activity for venture-backed companies remained solid during the quarter, with 79 announced deals. As seen in 2015, technology acquisitions continued to make up the majority of M&A deals. However, life sciences acquisitions matched their highest level in the last two years. In light of the drop in some portfolio company valuations, our managers are gradually shifting from net sellers to net buyers.

Portfolio Statistics as of March 31, 2016

All in USD	Inception Date	Committed / Subscription	Drawn / Subscription	Total Value / Drawn	IRR Since Inception Gross	IRR Since Inception Net	Public Market	1Q16 Gross IRR	1Q16 Net IRR
Total Hillingdon Portfolio	**02/2005**	**100%**	**93%**	**1.42x**	**9.36%**	**6.87%**	**5.31%**	**-1.05%**	**-1.34%**
2005 Subscription	02/2005	100%	95%	1.37x	7.92%	5.77%	5.09%	-1.20%	-1.47%
2006 Subscription	01/2006	100%	95%	1.38x	8.69%	6.19%	5.36%	-2.70%	-2.78%
2007 Subscription	01/2007	100%	93%	1.52x	12.97%	9.71%	6.71%	-0.59%	-0.94%
2009 Subscription	01/2009	100%	78%	1.38x	16.75%	11.54%	7.92%	-0.27%	-0.47%
Co-Investment Fund	09/2006	100%	96%	1.44x	7.36%	5.27%	3.32%	4.63%	3.15%
Co-Investment Fund II	01/2009	100%	85%	2.00x	33.66%	27.04%	11.43%	1.22%	1.03%

Notes:
- **Since Inception figures in GBP are: 12.38% (Gross) and 9.75% (Net). Q1 2016 figures in GBP are: 2.18% (Gross) and 1.88% (Net).**
- The Public Market is the equivalent return achieved by applying Hillingdon's cash flows to the MSCI ACWI TR.

Performance Update

The London Borough of Hillingdon since inception performance is 9.36% IRR gross, 6.87% IRR net versus 5.31% IRR for the public market equivalent. The GBP equivalent figures for the portfolio are 12.38% IRR gross and 9.75% IRR net.

Buyout returns, in general, were moderately positive during the first quarter, as much of the valuation pressure applied to venture-backed companies was not evident in other subclasses. Sponsored loan volume during the period remained at similar levels to those of the first three months of 2015, and focused on buyout and acquisition needs in sectors like computers/electronics, services/leasing and food/beverage. Purchase price multiples for larger buyouts continued the year-on-year rise they've experienced since 2013, driving further valuation uplift. Meanwhile, mid-sized buyout purchase price multiples for transactions that occurred in Q1 2016 were more consistent with those from 2010-2014 than with what may have been a temporary spike in multiples paid during calendar year 2015. This development further enhances what we already view to be an attractive opportunity set in small and mid-sized buyout investments. Depending on portfolio company size, the equity contribution to these transactions continues to grow, or at least remain steady. We believe this will result in better capitalized companies during what could be an increasingly volatile market and economic environment.

While this report focuses predominantly on results through March 31, 2016, we are cognizant that you are receiving it in the wake of the UK's recent Brexit vote. While that vote has caused short-term declines in risk-asset valuations, the timing and impact of a potential withdrawal from the EU is uncertain. As a result, so too are its medium and longer term impacts on private company portfolios. Nonetheless, as with any macroeconomic event, this will have some impact on both Adams Street's existing portfolio and its future investment strategy. Adams Street Partners continues to monitor company fundamental performance, public market valuations, financing markets, and currency movements - the four major factors that impact private company returns. We also plan to maintain our recent net seller strategy and our relatively conservative buy-side strategy until we see a significant valuation dislocation, at which point we will invest aggressively. In summary, please be assured that Adams Street is focused on this event, and that we will continue to notify you of the implications of future Brexit negotiations on our firm, portfolio, and strategy.

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Portfolio overview – Q2 2016

- Since the last report, net invested capital has decreased as the underlying managers have distributed more capital than they have invested
- Distributions as a proportion of paid-in capital have increased from 1.02x to 1.05x
- Total portfolio gains now amount to Euro 14.6 million, being Euro 12.9 million of NAV less Euro -1.7 million of net invested capital
- The USD weakened against the Euro in the period which therefore had a negative effect on portfolio performance

Q2 2016			Net Performance (in millions of Euros)						Cash Multiple		Drawn	
			LBH Commitment	Drawn	Returned	Net	NAV	Gain	D/PI	TV/PI	Gross	Net
Total Euro Exposure			32.7	27.5	-28.9	-1.4	10.5	12.0	1.05	1.44	84%	-4%
Euro equivalent Dollar Exposure @	1.1115	USD / Euro	7.4	6.4	-6.7	-0.3	2.4	2.7	1.04	1.42	87%	-4%
Total Exposure (in Euro millions)			**40.0**	**33.9**	**-35.6**	**-1.7**	**12.9**	**14.6**	**1.05**	**1.43**	**85%**	**-4%**
Q1 2016	1.0870		40.2	33.9	-34.5	-0.6	13.8	14.4	1.02	1.43	84%	-1%
Q4 2015	1.0870		40.2	33.7	-33.2	0.6	14.7	14.1	0.98	1.42	84%	1%
Q3 2015	1.1165		40.0	33.3	-30.6	2.6	16.2	13.5	0.92	1.41	83%	7%
Q2 2015	1.1141		40.0	33.0	-28.8	4.2	17.0	12.8	0.87	1.39	82%	11%
Q1 2015	1.0742		40.3	33.0	-27.4	5.5	17.6	12.0	0.83	1.36	82%	14%
Q4 2014	1.2101		39.4	31.9	-24.9	7.0	17.7	10.8	0.78	1.34	81%	18%
Q3 2014	1.2633		39.2	31.4	-23.5	7.9	18.3	10.4	0.75	1.33	80%	20%
Q2 2014	1.3691		38.6	30.5	-21.2	9.3	19.1	9.8	0.69	1.32	79%	24%
Q1 2014	1.3784		38.6	30.0	-19.7	10.4	19.5	9.1	0.66	1.30	78%	27%
Q4 2013	1.3780		38.6	29.7	-18.6	11.0	19.3	8.2	0.63	1.28	77%	29%
Q3 2013	1.3535		38.7	29.3	-17.4	11.8	19.7	7.9	0.60	1.27	76%	31%
Q2 2013	1.3001		39.0	28.8	-16.2	12.6	20.1	7.5	0.56	1.26	74%	32%
Q1 2013	1.2814		39.1	28.5	-15.2	13.3	20.7	7.4	0.53	1.26	73%	34%
Q4 2012	1.3193		38.9	28.2	-14.1	14.1	21.1	7.0	0.50	1.25	73%	36%
Q3 2012	1.2863		39.0	27.6	-13.1	14.5	21.0	6.5	0.47	1.24	71%	37%
Q2 2012	1.2686		39.1	27.4	-12.2	15.2	21.2	6.0	0.45	1.22	70%	39%
Q1 2012	1.3329		38.8	26.4	-11.9	14.5	19.9	5.3	0.45	1.20	68%	37%
Q4 2011	1.2949		39.0	25.7	-11.2	14.5	19.6	5.1	0.44	1.20	66%	37%
Q3 2011	1.3387		38.8	24.7	-10.0	14.7	19.9	5.2	0.40	1.21	0%	38%
Q2 2011	1.4510		38.3	23.5	-9.1	14.4	18.8	4.4	0.39	1.19	61%	38%
Q1 2011	1.4158		38.5	22.4	-8.3	14.2	18.4	4.2	0.37	1.19	58%	37%

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Statement of Investment Principles
(Revised September 2016)

INTRODUCTION

- The London Borough of Hillingdon (the Council) is the administering authority of the London Borough of Hillingdon Pension Fund (the Fund). The Fund operates under the National Local Government Pension Scheme (LGPS), which was established by statute to provide death and retirement benefits for all eligible employees. This Statement of Investment Principles applies to the Fund.

- In preparing the Statement of Investment Principles, the Council has consulted its professional advisers and representatives of the members of the Fund and has received written advice from the Fund Actuary and the Investment Practice of Hymans Robertson LLP.

- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 (Amended) sets out the powers and duties of the administrating authority (the authority) to invest Fund monies. The authority is required to invest any monies which are not required immediately to pay pensions and any other benefits and, in so doing, to take account of the need for a suitably diversified portfolio of investments and the advice of persons properly qualified on investment matters.

- The CIPFA Pension Panel's guidance "Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" which was issued in 2002 brought together ten principles with practical comment on their application to funds in England, Wales, Scotland and Northern Ireland. In 2008, following extensive consultation, the ten original principles which were issued by the government for application to pension funds, corporate and public sector were updated and consolidated into six new principles.

- The Investment Governance Group, with members drawn from the Pensions Regulator, the Department for Communities and Local Government, the CIPFA Pension Panel and LGPS interests, examined these six principles and with the agreement of the Pensions Regulator made changes to the wording to reflect the particular circumstances of the LGPS. The revised principles and guidance reflecting the changes in wording was released at the end of 2009 and this Statement complies with the disclosure of the revised principles.

- This Statement of Investment Principles outlines the broad rules governing the investment policy of the Pension Fund. Attached, at Appendix A, are the six headline principles of investment decision making and disclosure and the extent to which the London Borough of Hillingdon complies with the principles.

- The Council has delegated its responsibilities in relation to investment policy to the Pensions Committee.

- Management of the investments is carried out by fund managers appointed by the Pensions Committee. Fund Managers work within the policies agreed by the Pensions Committee.

- The Council's investment powers are set out in Regulations made by the Department of Communities and Local Government, applicable to the Local Government Pension Scheme. This Statement is consistent with these powers.

- The investment managers may only delegate their duties to a third party in accordance with the terms of their client agreement and subject to providing appropriate safeguards to the Council.

INVESTMENT RESPONSIBILITIES

The structure of investment responsibilities and decision making is listed below and follows best practice adopted by other Local Authorities in relation to their Pension Schemes.

The **Pensions Committee** has responsibility for:

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including authorisation or prohibition of particular investment activities.

2. To review the Statement of Investment Principles and amend it when necessary.

3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.

4. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.

5. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.

6. To review the appointment of specialist advisors and service providers and make new appointments as necessary.

7. The Corporate Director of Finance be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the Committee, reporting back to the Pensions Committee any exercise of these powers for ratification.

The **Chief Finance Officer** has responsibility for:

- Preparation of the Statement of Investment Principles to be approved by the Pensions Committee,
- Assessing the needs for proper advice and recommending to the Committee when such advice is necessary from an external adviser,
- Deciding on whether internal or external investment management should be used for day to day decisions on investment transactions,
- Ensuring compliance with the Statement of Investment Principles and bringing breaches thereof to the attention of the Pensions Committee, and
- Ensuring that the Statement of Investment Principles is regularly reviewed and updated in accordance with the Regulations.
- To keep asset allocation under review within range guidelines set by the Pension Committee. Within these range guidelines, the Chief Finance Officer has delegated

authority to:
- o Increase or decrease the allocation to equities, bonds or property
- o Increase or decrease the amounts / proportions of assets in manager mandates
- o Increase or decrease the level of currency hedging in place
- o Select investments for, or dispose of existing investments up to 5% of assets using the feeder funds.

The **Investment Consultants** are responsible for:
- Assisting the Pensions Committee and the Chief Finance Officer in their regular monitoring of the investment managers' performance,
- Assisting the Pensions Committee and the Chief Finance Officer in the setting of investment strategy
- Assisting the Pensions Committee and the Chief Finance Officer in the selection and appointment of investment managers and custodians, and
- Assisting the Pensions Committee and the Chief Finance Officer in the preparation and review of this document

The **Actuary** is responsible for:
- Assisting the Pensions Committee in the preparation and review of this document, and
- Providing advice as to the maturity of the Fund and its funding level in order to aid the Pensions Committee in balancing the short-term and long-term objectives of the pension Fund.

The **Investment Managers** are responsible for:
- The investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by this document and the detailed Investment Management Agreement,
- Tactical asset allocation around the strategic benchmark,
- Security selection within asset classes,
- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Pensions Committee as requested,
- Assisting the Pensions Committee and the Chief Finance Officer in the preparation and review of this Statement, and
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

The **Custodian** is responsible for:
- Its own compliance with prevailing legislation,
- Providing the authority with quarterly valuations of the Fund's assets and details of all transactions during the quarter
- Collection of income, tax reclaims, exercising corporate administration and cash management.
- Providing a Securities Lending Service and complying with the limitation that no more than 25% of the fund is to be on loan.

FUND LIABILITIES

Scheme Benefits

The LGPS is a defined benefit scheme, which provides benefits related to career average salary for members for service post April 2014 and final salary for service prior to April 2014. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets. Full details of the benefits are set out in the LGPS regulations.

Financing benefits

All active members are required to make pension contributions based on the percentage of their pensionable pay as defined in the LGPS regulations.

The London Borough of Hillingdon is responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time by the Fund's actuary.

Actuarial valuation

The Fund is valued by the actuary every three years in accordance with the LGPS regulations and monitored each year in consultation with employers and the actuary. Formal inter-valuation monitoring has also been commissioned.

INVESTMENTS

Approach

- The investment approach is to appoint expert fund managers with clear performance benchmarks and place maximum accountability for performance against those benchmarks with the investment manager.
- Overall, the strategic benchmark is intended to achieve a return such that the Fund can, without excessive risk, meet its obligations without excessive levels of employers' contributions.
- Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.
- The investment strategy is reviewed annually, with a major review taking place following the triennial actuarial valuation.

Investment managers and advisers

The investment managers currently employed by the Council to manage the assets of the Fund are, Adams Street Partners, AEW UK Investments, GMO Investment Management, JP Morgan Asset Management, ~~Kempen International Investments,~~ LGT Capital Partners, M&G Investments, Macquarie Infrastructure & Real Assets Europe, Newton Asset Management, Permira Credit Solutions II Senior (Feeder) L.P, Ruffer LLP via the London CIV, State Street Global Advisors and UBS Global Asset Management. Each manager is responsible for the day-to-day management of a portfolio of investments for the Fund.

Custodian services for the Fund's assets are provided by Northern Trust.

The investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

Hymans Robertson LLP acts as the Fund's Actuary. KPMG is the Fund's Investment Consultant and give written advice on appropriate investment strategies. Scott Jamieson acts as an independent advisor to the pension fund and provides advice and challenge on appropriate investment strategies.

Client agreements have been made with each of the above investment managers and advisers. The Chief Finance Officer has been delegated the authority to agree amendments to these agreements.

The Pension Committee regularly monitors the performance of the investment managers and its advisers, on behalf of the Council.

Types of investments to be held and the balance between these investments

Based on expert advice and taking into account the Fund's liabilities, the Pension Committee has determined a benchmark mix of assets considered suitable for the Fund. The asset mix currently includes equities (public and private), bonds (government, corporate and index-linked), property, cash and absolute return, fund of hedge fund strategies, Infrastructure and Direct Lending Opportunities. Investments are made in the UK, the major overseas markets and in emerging markets. The fund managers have discretion to vary the allocation of investments between markets on a tactical basis. Appendix D shows the benchmarks for the fund managers and the permitted ranges in which the assets can fluctuate, as at the date of this document.

A review is carried out after each actuarial revaluation and used to consider the suitability of the existing investment strategy.

The suitability of investments

The managers may invest in equities and bonds, including collective vehicles, property and cash, consistent with their mandates, without consultation with the Council. Managers invest in accordance with Schedule 1 'Limits on Investments' of the LGPS (Management and Investment of Funds) Regulations 2009 as amended. The current Limits for the London Borough of Hillingdon Pension Fund are set out at Appendix B.

Other types of investment may be approved by the Committee after taking professional advice.

The expected return on investments

Investment managers are given target performance standards and their actual performance is measured against these. These targets (gross of fees) are:

Adams Street Partners	- Outperform benchmark
AEW UK Core Property	- Outperform benchmark
GMO Investment Management	- 5 % p.a. in excess of benchmark
JP Morgan Asset Management	- Outperform benchmark

LGT Capital Partners	- Outperform benchmark
M&G Investments	- 5.00% p.a. in excess of benchmark
Macquarie Infrastructure	- Outperform internal rate of return hurdle
Newton Asset Management	- 2% p.a. in excess of benchmark
Permira Credit Solutions II (Feeder) L.P	- 4% p.a. in excess of benchmark
London CIV - Ruffer LLP	- Outperform benchmark
State Street Global Advisors	- Achieve Benchmark
UBS Asset Management	- 2.00% p.a. in excess of benchmark
UBS Asset Management - Property	- 1.00% p.a. in excess of benchmark
UBS Tactical Asset Allocation	- Out Perform benchmark

Overall, the targets are intended to achieve above average performance, relative to earnings and inflation, without excessive risk, so that the Fund can meet its obligations without excessive levels of employer's contribution.

Performance is monitored quarterly and a formal review to confirm (or otherwise) the continued appointment of existing managers is undertaken annually.

Fee Structures

Adams Street Partners	- Fee based on subscribed capital + performance fee
AEW UK Investments	- Fixed Fee based on portfolio value
GMO Investment Management	- Fixed Fee based on portfolio value
JP Morgan Asset Management	- Fixed fee based on portfolio value
LGT Capital Partners	- Fee based on subscribed capital + performance fee
M&G Investments	- Fixed fee based on drawn capital
Macquarie Infrastructure	- Fee based on committed capital + performance fee
Newton Asset Management	- Fixed fee based on portfolio value
Permira Credit Solutions II (Feeder) L.P	- Fee based on committed capital + performance fee
London CIV - Ruffer LLP	- Fixed flat fee based on portfolio value
State Street Global Advisors	- Fixed flat fee based on portfolio value.
UBS Asset Management	- Tiered fee based portfolio value.
UBS Asset Management - Property	- Fixed fee based on portfolio value.
UBS Tactical Asset Allocations	- No Fee Charged (Just Transactions Costs)
KPMG LLP	- Price per piece
Scott Jamieson	- Fixed fee

In each case best value is the basis for selection of fee structures.

Risk and diversification of investments

It is the Council's policy to invest the assets of the Fund so as to spread the risk on investments.

The diversification of asset types is intended to ensure a reasonable balance between different categories of investments to reduce risk to an acceptable level.

Each manager is expected to maintain a diversified portfolio within each asset class and is permitted to use collective investment vehicles as a means of providing diversification in particular markets.

Where managers wish to use futures, specific arrangements are agreed to limit the Fund's exposure to risk.

The management of Fund assets is spread over more than one manager, with different performance targets, as a further measure to reduce overall risk.

The key risks facing the Pension Fund are reported to the Pension Committee on a quarterly basis where they are monitored and reviewed.

The realisation of investments

The majority of stocks held by the Fund's Investment Managers are quoted on major stock markets and may be realised quickly if required. Property and private equity investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets. In general, the investment managers have discretion as to the timing of realisations. If it becomes necessary for investments to be sold to fund the payment of benefits, the Pension Committee and the manager(s) will discuss the timing of realisations.

Pension Fund Treasury Management Policy

The Local Government Pension Scheme (Management and Investment of Funds) 2009 requires the pension fund to hold its own separate bank account. The use of a separate pension fund bank account requires the introduction of a dedicated treasury management activity solely for the pension fund.

The prime objective of the pension fund treasury management activity is the security of the principal sums invested. As such it will take a prudent approach towards the organisations employed as the banker and deposit taker.

For the Banker, the minimum criteria will be the lowest equivalent short term and long term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned).
Long term minimum: A+ (Fitch); A1 (Moody's); A+ (S&P)
Short term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)
The deposit taker will be limited to AAA-rated money market fund.
The Pension Fund will also take into account information on corporate developments of and market sentiment towards these organisations.

The pension fund will ensure it has adequate, though not excessive, cash resources to enable it at all times to have the level of funds available to it which are necessary for the achievement of its objectives.

The pension fund may borrow by way of temporary loan or otherwise any sums which it may require for the purpose of paying benefits due under the scheme, or to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment. The pension fund may only borrow money for these circumstances if, at the time of borrowing, the pension fund reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of its pension fund within 90 days of the date of the borrowing.

The pension fund will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

In terms of treasury management the Pension Fund will operate separately from the Council and as such any transactions carried out by or on behalf of either party will be settled by cash transfer in a timely manner. The financial accounting is also separated, monitored and reconciled, to ensure any balances are identified and accounted for in the proper manner.

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT

The Council supports the principle of socially responsible investment, within the requirements of the law and the need to give the highest priority to financial return. The investment managers are expected to have regard to the impact of corporate decisions on the value of company shares in making their investment decisions. The Council will consider supporting actions designed to promote best practice by companies where necessary and appropriate. The investment managers' discretion as to which investments to make will not normally be overridden by the Council, except on the basis of written information from other advisers.

The Pensions Committee has discussed socially responsible investment in the context of investment strategy. It has decided that the principle of the Fund's investment policy is to obtain the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations.

The Council supports the Stewardship Code issued by the Financial Reporting Council, however in practice the fund's policy is to apply the code through its fund managers and membership of London CIV Ltd. (See appendix E)

In addition to the Stewardship Code the Council also supports the UK Environmental Investor Code and the CERES Principles.

EXERCISE OF RIGHTS ATTACHING TO INVESTMENT

It is the Council's policy to be an active shareholder. Where the pension Fund has securities held in a portfolio which have associated with them a right to vote on resolutions, the Pension Committee has delegated the exercise of these rights to the Fund Managers in accordance with the authority's corporate governance policy. The Council's policy is that that all proxies are to be voted where practically possible.

The Council's policy on corporate governance is that it normally expects the Fund Managers and companies to comply with the Combined Code published by the London Stock Exchange in June 1998 following the recommendations of the Hampel Committee. The Code integrated the earlier Cadbury and Greenbury Codes together with some additional recommendations.

Fund Managers' right to vote on behalf of the Fund are subject to conforming with the overall principles set out in this Statement and within the prevailing regulations.

From time to time, the Pension Committee may feel strongly concerning certain policies and at this time would advise the managers how to execute their votes. Attached at Appendix C are the Pension Committee's broad guidelines on exercising the Council's voting rights.

STOCK LENDING

The Stock Lending programme is managed by the Fund's custodian Northern Trust. They comply with the limitation that no more than 25% of the fund is to be on loan.

All loans are fully collateralised with Government obligations, Local Authority Bonds or Bills, letters of credit, certificates of deposit or equities issues.

Information regarding Stock Lending activity is reported to Pensions Committee on a quarterly basis.

COMPLIANCE

The London Borough of Hillingdon as the administering authority of the London Borough of Hillingdon Pension Fund complies with the guidance given by the Secretary of State.

The investment managers and all other investment advisers are requested to exercise their investment powers in support of the principles set out in this Statement and in accordance with the Regulations.

The Pension Committee reviews the performance of the investment managers on a quarterly basis. Northern Trust provides an independent monitoring service. Scott Jamieson meets with Fund Managers on a quarterly basis and prepares a report on those meetings for Committee. Professional advice is taken as appropriate and an annual review is carried out. This Statement of Investment Principles is reviewed by the Pensions Committee at least annually and revised when necessary.

APPENDIX A

CIPFA Principles for Investment Decision Making and Disclosure

The table below identifies the basis and status of Compliance of the Pension Fund with the CIPFA Principles of Investment Decision Making and Disclosure.

Principle 1 Effective Decision Making	Administering Authorities should ensure that: • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implication and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	Compliant All investment decisions are taken within a clear and documented structure by the Pension Committee, which is responsible for the Management of the Council's Pension Fund. Committee are provided with bespoke training when specific decisions are required and have committed to regular training. The officer support team has sufficient experience to support Committee in making decision making responsibilities. It undertakes regular training as part of a continued personal development plan. There is an Investment Sub Group made up of senior officers, the scheme adviser and an independent advisor. An independent adviser attends Pension Committee to add additional challenge to the advice received. Local Pension Board meets quarterly to consider governance and administration of the fund, having guidance, advisory and scrutiny remit.
Principle 2 Clear objectives	An overall investment objective(s) should be set out for the fund that takes accounts of the scheme's liabilities, the potential impact on local taxpayers, the strength of the	Compliant The investment objectives and attitudes to risk are set out in the Statement of Investment Principles

	covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers and these should be clearly communicated to advisors and investment managers.	and Funding Strategy Statement. Overall fund objects are reviewed properly as part on the ongoing monitoring of the fund.
Principle 3 Risk and liabilities	In setting and reviewing their strategy, administering authorities should take account of the form and structure of liabilities. These include the implication for local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Compliant The review of the Funding Strategy takes into account relevant issues and implications.
Principle 4 Performance assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	Partly Compliant Both the performance of the fund and the performance of the fund managers are monitored on a regular basis. Committee procedures, decision making and deferral of decisions are recorded in the committee papers. Assessment of the authority's own effectiveness and that of the advisers is yet to be implemented.
Principle 5 Responsible ownership	Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • include a statement of their policy on responsible ownership in the statement of investment principles • report periodically to scheme	Partially Compliant The Council includes a policy on Socially Responsible Investment within the Statement of Investment Principles. Fund manager engagement is reported and reviewed on a quarterly basis.

	members on the discharge of such responsibilities.	
Principle 6 Transparency and reporting	Administering authorities should: • act in a transparent manner, communicating with shareholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives • provide regular communication to scheme members in the form they consider most appropriate.	Partially Compliant The Statement of Investment Principles and Funding Strategy Statement are published on the Council's website and are updated as required. The Pension Annual Report provides details of manager and fund monitoring and is available on the Council website. Members are directed to the website but hard copy reports are available on request. The minutes and decisions taken at Pension Committee meetings are available on the Council website.

APPENDIX B

Limits on Investments

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 as amended and The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013 Schedule 1, set out the legal requirements which apply to the investments of the Fund. The statutory regulations specify the following restrictions on investments:

Investment	**Limit**
Any single sub-underwriting contract	5%
All contributions to any single partnership	5%
All contributions to partnerships.	30%
The sum of: All loans (except Government Loan) Any deposits with any local authority; or any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute, which is an exempt person (within the meaning of the 2000 Act) in respect of accepting deposits as a result of an order made under section 38(1) of that Act.	10%
All investments in unlisted securities of companies	15%
Any single holding (but see paragraphs 1 and 2 below).	10%
All deposits with any single bank, institution or person (other than the National Savings Bank).	10%
All sub-underwriting contracts.	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 2 below	35%
All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body.	35%
All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 2 below).	35%
Any single insurance contract.	35%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements.	35%
Restrictions identified in the above table does not apply if:	

the investment is made by an investment manager appointed under regulation 8; and

the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.

- Restrictions identified in the above table do not apply to:

National Savings Certificates;

fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills;

any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or

a deposit with a relevant institution.

An Investment Management Agreement is in place with each Fund Manager which clearly defines the investment guidelines for the portfolio they manage.

If individual managers invest outside the laid down investment guidelines then they will consult with the Chief Finance Officer for direction and report to the Pension Committee at the next available opportunity.

APPENDIX C

Voting Guidelines

The main focus is to promote maximum long-term shareholder value and protect the interest of shareholders.

Recommendations	For / Against	Voting Guidance
General		Vote with Fund managers Take into account the principles derived from the Combined Code and related UK initiatives
Environmental Concerns The UK Environmental Investor Code		Encourage and support companies that demonstrate a positive environmental response. Commitment to environmental excellence, monitor their impacts, improvements in their performance, comply with all legislation, regular reports of progress on environmental standards
The CERES Principles		Adopt the CERES principles, corporations have a responsibility for the environment, they are stewards, mustn't compromise the ability of future generations to sustain themselves.
Human Rights		Ensure high standards of employment and industrial relations in all companies
SRI		Consider socially responsible and governance issues but abide by legal rules which may limit investment choice on purely socially responsible and governance grounds, consideration to financial interest of fund members comes first.
The Report and Accounts	For	Legal regulatory requirements are met
	Against	Material inadequacies in the report and accounts
Directors Election	For	Regular re-election, full autobiographical information
	Against	Insufficient information, no regular re-election, appointment combining chairman and chief executive
Non-Executive directors	For	Independent of management, exercise free independent judgement
	Against	Lack of independence, automatic reappointment
Employment Contracts	For	Contract period no more than 2 years
	Against	Contract over 2 years
Directors Remuneration and employee share schemes	For	Remuneration must be visible, share schemes open to all staff, schemes costs and value are quantified by the company,
	Against	Remuneration above the market rate, poor performance rewards, Shares schemes only open to directors and option schemes that are not quantified.
Appointment of Auditors	For	Protect independence of auditors and ensure non-audit work is less than 25%of total fees.

		Appointment of auditors be for at least 5 years.

APPENDIX D

Investment Structure – Performance Benchmark, Permitted Ranges and Comparative Indices

ADAMS STREET PARTNERS			
Asset Class	Benchmark %	Ranges %	Index
Private Equity	100	n/a	MSCI World
Total	**100**		

AEW UK CORE PROPERTY FUND			
Asset Class	Benchmark %	Ranges %	Index
Secondary Property	100	100	IPD ALL BALANCED PROPERTY
Cash	0	0 - 10	LIBOR 7 Day
Total	**100**		

GMO INVESTMENT MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
Absolute Return	100	100	OECD CPI G7 (GBP) +5% (Net)
Total	**100**		

JP MORGAN ASSET MANAGEMENT			
Asset Class	Benchmark %	Ranges %	Index
Fixed Interest	100	100	LIBOR 3 month **+ 3%**
Total	**100**		

LGT CAPITAL PARTNERS			
Asset Class	Benchmark %	Ranges %	Index
Private Equity	100	n/a	MSCI World
Total	**100**		

M&G INVESTMENTS			
Asset Class	Benchmark %	Ranges %	Index

Private Placement	100	n/a	LIBOR 3 month **+4%**
Total	**100**		

MACQUARIE INFRASTRUCTURE & REAL ASSETS EUROPE			
Asset Class	Benchmark %	Ranges %	Index
Infrastructure	100	n/a	Internal rate of return hurdle
Total	**100**		

Newton Asset Management			
Asset Class	Benchmark %	Ranges %	Index
Global Higher Income	100	n/a	FTSE World Index +2%
Total	**100**		

PERMIRA CREDIT SOLUTIONS II (Feeder) L.P			
Asset Class	Benchmark %	Ranges %	Index
Direct Lending Opportunities	100	n/a	LIBOR 3 month +4%
Total	**100**		

London CIV - RUFFER LLP			
Asset Class	Benchmark %	Ranges %	Index
Absolute Return	100	n/a	LIBOR 3 month
Total	**100**		

STATE STREET GLOBAL ADVISORS - Passive Balanced Portfolio			
Asset Class	Benchmark %	Ranges %	Index
UK Equity Index sub-Fund	44	**Rebalanced Quarterly +/- 10% of Benchmark**	FTSE All Share (or similar)
North America Equity Index sub-fund	11		FTSE World North America (or similar)
Europe ex UK Equity Index sub-fund	11		FTSE World Europe ex UK (or similar)
Asia Pacific Equity Index sub-fund	11		FTSE **Pacific Basin (excl Japan)** (or similar)
Emerging Markets Equity Index fund	3		FTSE All-World All Emerging (or similar)
UK Conventional	1.5		FTA British Govt Conventional Gilts

Gilts All Stocks fund			All Stocks (or similar)
Index-Linked Gilts All-Stocks Index fund	10		FTA British Govt Index Linked Gilts All Stocks (or similar)
Sterling Corporate Bond All Stocks fund	8.5		Barclays Capital Sterling Aggregate (or similar)
Total	**100**		

STATE STREET GLOBAL ADVISORS - UK Index Linked Gilts Portfolio			
Asset Class	Benchmark %	Ranges %	Index
UK Index Linked Gilts Over 15 Years Index	100	100	FTSE All Share Ex- Tobacco
Total	**100**		

UBS GLOBAL ASSET MANAGEMENT – EQUITIES			
Asset Class	Benchmark %	Ranges %	Index
UK Equities	100	40 - 100	FTSE All Share Ex- Tobacco
Cash	0	0 – 10	
Total	**100**		

UBS GLOBAL ASSET MANAGEMENT - PROPERTY			
Asset Class	Benchmark %	Ranges %	Index
Property	100	+/- 25%	IPD ALL BALANCED PROPERTY
Cash	0	0 - 10	LIBOR 7 Day
Total	**100**		

APPENDIX E

Stewardship Code

Principle	Response
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The London Borough of Hillingdon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy. In practice the fund's policy is to apply the Code through its arrangements with its asset managers. To this end, a quarterly summary of fund managers' ESG activities detailing the meetings engagement meetings undertaken and issues raised at such meetings, AGM and EGMs attended and their voting statistics are provided to members as part of the Pensions Committee meeting reports. Due to the diversity of investments made on behalf of our fund by the managers engaged, their role is quite pivotal in ESG issues as they have vast resources at their disposal to directly raise issues of concern to clients such as us with respective companies and feedback information from such engagements via quarterly performance reports detailing their activities for the period. Most managers combine these meetings with their investment due diligence as part of a holistic approach to management of funds entrusted into their care. The process described above ensures invested companies are aware of the opinion of shareholders such as our fund regarding their stewardship of the companies and consider such opinion in their decision making processes. Failure to take heed of such opinion has often been followed by the fund manager in question raising such issues at company AGMs and subsequently employing their vote at such meetings to reinforce their position or sometimes in extreme cases, divest from such companies.
Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings. These declarations are reported in agenda items readily available to the general public in the minutes of the quarterly meetings Further to the declarations of interest at pension committee meetings, members are duty bound to make written related party declarations annually which form part of the disclosure notes to the

	fund accounts and notes. These declarations are in addition to member declarations for the main Council's accounts. Subsequently, any perceived conflict of interest is transparent to members of the public
Principle 3 - Institutional investors should monitor their investee companies	Day-to-day responsibility for managing our investments is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. Reports from our fund managers on voting are received and engagement activity is reported to committee quarterly. Effectiveness of Fund managers' engagement activities is appraised through responses gleamed from their detailed quarterly reports and the engagement volumes monitored with a view to ascertain their commitment to stewardship of investments under their management. Voting patterns and volume of attended meetings are also good indications of their commitment and effectiveness . In addition the fund receives ‘alerts’ from Local Authority Pension Fund Forum. These highlight corporate governance issues of concern and are considered accordingly.
Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund’s asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. On occasions, the fund may participate in escalation of poignant issues, principally through fund managers' engagements with parties of concern. Our fund have in the past directed fund managers to divest from companies in a particular sector (Tobacco) based on our concern of the effect of their product on general population's health at a time when the Council was entrusted with Public health responsibilities locally. One of such managers, UBS now hold UK equities on our behalf excluding Tobacco stocks.
Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.	The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of London CIV, which takes direction from Local Authority Pension Fund Forum (LAPFF) over environmental, social and governance issues on behalf of its members, through voting alerts on such issues as recommended by LAPFF. The fund also still receive engagement information from LAPFF, including voting alerts and possible escalation points with engaged fund managers

	in pursuance of important ESG engagement issues. PIRC on behalf of the LAPFF will often send out voting alert on issues that they perceive need the weight of numbers of Local Government investors to reinforce our position on ESG issues at certain companies in order to effect change or ensure the company's management recognise our objection to their stewardship on such issues. A good example was the opposition of Sir Stuart Rose proposal as both CEO and Chairman of Marks and Spencer in 2009. Also, Keith Bray of the LAPFF is always available to provide information any engagement programme initiated by the forum.
Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.	In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The fund does not currently disclose any voting data.
Principle 7 - Institutional investors should report periodically on their stewardship and voting activities	The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report.

2016 Actuarial Valuation and Funding Strategy Statement - Update	

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	

This report is to provide information to Committee only.

INFORMATION

1. Valuation

The triennial revaluation of the pension fund to value the fund as at 31 March 2016 is well underway. Data has been submitted to the Fund Actuary to enable completion of the valuation. The Fund Actuary will provide officers with draft results during the autumn and will also participate in an employer forum during November, to enable scheme employers to ask questions on their individual results. The Actuary, Catherine McFadyen, will attend the December meeting of this Committee to present the results for the whole fund. It is proposed that the members of the local Pensions Board be invited to attend that part of the meeting to enable them to hear the Actuary's presentation.

2. Funding Strategy Statement

As part of the valuation process under LGPS regulations each Administering Authority is required to publish and maintain a Funding Strategy Statement (FSS). Ensuring that, in the long term, an LGPS pension fund has sufficient assets to meet pensions liabilities is the primary responsibility of those charged with managing the fund, and getting the funding strategy right is critical to the achievement of this. The purpose of the Funding Strategy Statement, as set out by the Department for Communities and Local Government in 2003, is to 'establish a clear and transparent fund-specific funding strategy which would identify how employers' pension liabilities are best met going forward.'

The FSS is updated following each valuation and is drafted along with the Fund actuary. The FSS will take account any revisions to the funding position and will link to the Fund's Investment Strategy.

As the FSS applies to all employers participating within the Fund, we are required to consult with all Fund employers prior to finalising the strategy. A draft of the FSS will be brought to Pension Committee in December with the Valuation results, for initial approval and to seek authority to consult with fund employers. Committee will then be asked to agree the final version in March 2017, prior to it becoming effective from April 2017 along with the application of any new employer contribution rates.

3. Section 13

The 2016 valuations will be the first valuations to be carried out under a new governance framework, set out under Section 13 of Public Service Pensions Act. The new framework requires the Government Actuaries Department (GAD) to report on whether the LGPS formal funding valuations meet the 4 criteria of Compliance, Consistency, Solvency and Long term cost Efficiency. To assist the planning of this report, GAD have carried out a dry run based on the 2013 valuation reports for all LGPS funds, working closely with the four LGPS Actuaries to identify any complexity in this process. From the dry run no compliance issues were found. GAD reported on presentational and evidential inconsistencies across the funds dependant on the actuary used. There were no open LGPS funds that were red flagged in relation to solvency although some amber flags were raised on a number of funds. There were no red flags raised on the Hillingdon Pension Fund or for any other fund which have Hymans as their Actuary.

One of the key indicators GAD compiled in the dry run report was to compare all LGPS funds funding levels as at the 2013 valuation to a standardised set of consistent assumptions known as the SAB standard basis. Whilst the actual 2013 valuation resulted in a 72% funding level, had this standardised basis been used the funding level would have been 83%. Across all the various indicators observed by GAD under the section 13 dry run report, Hillingdon obtained all green flags.

4. Scheme Advisory board (SAB)

Under section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113, the Local Government Pension Scheme Advisory Board has been created.

The purpose of the Board is to both reactive and proactive. It will seek to encourage best practice, increase transparency and coordinate technical and standards issues. It will consider items passed to it from the Department of Communities and Local Government ("DCLG"), the Board's sub-committees and other stakeholders as well as items formulated within the Board. Recommendations may be passed to the DCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.

In 2013 the Board was set up in 'Shadow' in order to test the format, terms of reference, membership and committees prior to the formalisation of these items in the LGPS Regulations. On 1st April 2015 the Board was established as a statutory body, and the formal membership was confirmed early in 2016 with non voting members and advisors added in the summer of the same year.

Information about the SAB is available on their website: http://www.lgpsboard.org

Pensions Administration Report

Contact Officers	Nancy Leroux & Ken Chisholm, 01895 250847
Papers with this report	Administration Strategy

SUMMARY

This report provides an update on Pension Fund Administration and includes details on progress of the project to transfer Administration to Surrey County Council; the latest update on administration performance; and an update on early retirement statistics. Committee are also asked to give approval to the Administration Strategy.

RECOMMENDATIONS

It is recommended that Pension Committee:

1. **Note the progress on the transfer of Administration;**
2. **Review the latest administration performance figures;**
3. **Note the latest information in respect of early retirements;**
4. **Approve the Administration Strategy.**

1. TRANSFER OF ADMINISTRATION FROM CEB TO SURREY COUNTY COUNCIL with effect from 1 November 2016

The project to transfer administration to Surrey County Council is now at an advanced stage and all actions are on track. Weekly conference calls between LBH, Surrey, CEB and Heywood (the administration system provider) ensure that activity is tracked and monitored. An updated data cut has been uploaded from the Capita system to the test environment of Surrey's system and Hillingdon officers have access to that system. Testing has taken place by both by Surrey and Hillingdon Officers and issues have been reported back to Heywood for rectification. Generally the majority of the data received has been mapped on to Surrey's system. The first parallel run of the payroll is due to take place in September.

Monthly project Board meetings are also held to ensure escalation of any issues as they arise. At this stage there are no issues to report to Committee.

2. ADMINISTRATION PERFORMANCE INFORMATION

Performance is reported monthly and monitored against the service level agreement contained within the Framework Agreement. Targets are measured in working days for each function performed as part of the administration contract, against a target of 100%. An overall performance measure for each month in this year is shown below, with detail on the last three months detailed at the end of this report.

Month	Performance
April 2015	90.91%
May 2015	98.96%

June 2015	96.40%
July 2015	99.45%
August 2015	97.87%
September 2015	99.22%
October 2015	98.61%
November 2015	100%
December 2015	99.66%
January 2016	99.23%
February 2016	99.36%
March 2016	99.60%
April 2016	98.42%
May 2016	98.73%
June 2016	97.32%
July 2016	98.33%
August 2016	97.22%

Whilst overall performance has been consistently above 97%, there remain a few areas of concern where performance is below an acceptable level, particularly during August. Condolence letters once again only achieved 70% during August; the calculation of deferred benefits was at less than 90% and the estimate of benefits was also fairly poor during August.

However, the performance data does not report on the other ongoing rectification issues such as data cleanse work where Hillingdon officers are continuing to work with CEB administrators to amend and update members' records where errors have been identified. A number of additional amendments have been identified as a result of the analysis of the year-end data received from external employers, schools and academies.

Annual Benefit Statements (ABS) 2016

Capita have confirmed that all annual benefit statements were sent to scheme members and deferred members, by 31 August 2016.

Transfer Requests

Officers were asked to monitor and provide Committee with details of the Capita process to ensure that scheme members were being made fully aware of the consequences of transferring their benefits. For the 3 months from March 2016 to June 2016 there were 25 requests for transfer out quotations, of which 11 were in relation to the new freedoms. There was 1 transfer made under the New Freedoms. This transfer was for £11,350 and as this figure is less than £30k payment was made without reference to an Independent Financial Advisors Certification.

3. EARLY RETIREMENT STATISTICS

The table below shows the number of employees, by category, whose LGPS benefits have been put into payment. In the case of redundancy and efficiency this relates to employees over 55 years of age. The earliest age a scheme member can retire voluntarily is age 55.

	Redundancy	Efficiency	Ill Health	Voluntary over 55
2012/13	**23**	**0**	**6**	**14**
2013/14	**50**	**0**	**3**	**45**
2014/15	**23**	**0**	**8**	**52**
2015/16	**19**	**0**	**6**	**68**
2016/17 1st Quarter	**17**	**0**	**2**	**48**

As a result of a key recommendation by the Audit and Accounts Commission, local authorities were advised to calculate and monitor early retirement costs as they occurred within the LGPS between formal triennial valuations. The capital cost of early retirement is charged back to the employer at the time of retirement and is closely monitored by Officers to ensure the Fund is not disadvantaged.

4. Administration Strategy

In June 2016, Committee approved the draft Administration Strategy for consultation with other employers in the Fund. Employers were invited to submit their comments by 31 August 2016. At the time of writing this report no comments had been received, therefore Committee is asked to approve the Strategy without amendment.

FINANCIAL IMPLICATIONS

The financial implications are contained within the report.

LEGAL IMPLICATIONS

There are no legal implications within this report.

PENSIONS ADMINISTRATION PEFORMANCE

WORK TASK	Target	June 2016		July 2016		August 2016	
		Number of cases	% completed in target	Number of cases	% completed in target	Number of cases	% completed in target
Condolence Letter	3 Days	15	93.33	17	88.24	10	70
Actual Retirement Benefits	3 Days	40	100	22	100	56	100
Letter notifying Dependants Benefits	5 Days	6	100	6	100	3	100
Process Refund	10 Days	62	100	75	98.67	64	98.44
Transfers in Actual	10 Days	2	100	3	100	5	100
Transfers in quote	10 Days	6	100	11	100	9	100
Answer General Letter	5 Days	85	100	93	97.85	87	97.70
Calc/Notify Deferred	15 Days	66	100	61	100	48	89.58
Estimate of Retirement Benefits	5 Days	38	97.37	42	100	38	92.11
Transfers Out Quote	5 Days	0	N/A	0	N/A	14	100
Transfers Out Actual	9 Days	4	100	2	100	10	100
New Entrants	20 Days	95	100	105	98.10	159	100
Added Years	10 Days	0	N/A	0	N/A	0	NA

London Borough of Hillingdon Pension Fund

Administration Strategy

1 November 2016

Administration Strategy

Introduction and Background

This is the statement outlining the Pension Administration Strategy for the London Borough of Hillingdon Pension Fund (“the Fund”) and has been developed following consultation with the Fund's administrators, employers in the Fund, Local Pension Board members and other interested stakeholders.

The aims of the Pension Administration Strategy are to:
- ensure that the parties to which it relates are fully aware of their responsibilities under the Scheme, and
- outline the quality and performance standards expected of the Fund and its scheme employers to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer service level agreement.

London Borough of Hillingdon (the "Administering Authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme (“the LGPS”). Operationally, the administration of the Fund is undertaken through a formal delegation agreement by the Pensions Administration team at Surrey County Council. The Surrey team and the Officers in Hillingdon work together to provide a seamless service to scheme employers and members.

This Pension Administration Strategy does not supersede any formal agreements between the Administering Authority and the administrators or between the Administering Authority and the employers. However, is it intended to complement such arrangements and provide greater clarity in relation to each party's role and responsibilities.

This Strategy applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date of 1 November 2016. The Statement sets out the expected levels of administration performance of both the Administering Authority and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

Implementation

This Strategy outlines the level of service the Administering Authority aims to provide to scheme members and employers, as well as the role employers will need to play in providing that quality of service. It is recognised that the aims and objectives in this Strategy are ambitious in some cases and meeting these is dependent on the implementation of some changes in the existing ways of working. This Strategy is being implemented during a period which continues to present a number of challenges, not least:

- the need to carry out a major scheme reconciliation exercise as a result of the introduction of the new State Pension

- continuing pressure on resources and budgets for employers and the Administering Authority.

During 2017/18 further improvements are planned to help deliver this Strategy including:

- Allowing scheme members access their own record online.

This Strategy will be effective from 1 November 2016 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 provide the conditions and regulatory guidance surrounding the production and implementation of Administration Strategies.

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the Administering Authority and employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 and 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003
- Finance Act 2013 and
- Relevant Health and Safety legislation.

As a result of the Public Service Pensions Act 2013, the Pensions Regulator now has responsibility for oversight of a number of elements of the governance and administration of Public Service pension schemes including the LGPS. The Regulator has the power to issue sanctions and fines in respect of failings of the Administering Authority, and also where employers in the Fund fail to provide correct or timely information to the Administering Authority. Should this happen, the Administering Authority would recharge any costs back to employers as set out later in this strategy.

More information relating to the requirements of the Local Government Pension Scheme Regulations is included in Appendix A. This statement has been developed with those provisions in mind, and describes the Administering Authority's approach to meeting these requirements in the delivery of administration.

Aims and Objectives

The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

In addition, there are specific aims and objectives in relation to administration responsibilities as set out below.

Administration Aims and Objectives
The purpose of this strategy statement is to set out the quality and performance standards expected of London Borough of Hillingdon in its role as Administering Authority and employer, as well as all other employers within the Fund.

The Administration Strategy has a number of specific objectives, as follows;

- Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records and ensure data is protected and has authorised use only.

Delivery of Administration

London Borough of Hillingdon has delegated responsibility for the management of the Pension Fund to the London Borough of Hillingdon Pensions Committee, taking into consideration advice from the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the administration of the Fund is undertaken by Surrey County Council supported by a small 'in-house' capacity within London Borough of Hillingdon.

The London Borough of Hillingdon will look for opportunities to work collaboratively with other Administering Authorities so as to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised

further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- participating in joint training sessions with other administering authorities.

Performance Standards – Quality

Local Standards
The legislative and regulatory standards are set out previously. On top of these, the Administering Authority and employers ensure that all administration functions and tasks are carried out to agreed local quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the employer service level agreement and this Administration Strategy Statement
- information to be provided in the required format and/or on the appropriate forms.
- information to be legible and accurate
- communications to be in a plain language style
- information provided or actions carried out to be checked for accuracy by an appropriately trained member of staff
- information provided or actions carried out to be authorised by an agreed signatory, and
- actions carried out, or information provided, within the timescales set out in this strategy statement.

Secure Data Transfer
The Administering Authority and employers follow London Borough of Hillingdon's data security guidelines when sending any personal data. The pension administration function uses a secure email system to send data when required to prevent any sensitive information from being accidentally sent to unauthorised recipients.

One of the key methods of data transfer relating to the Fund's administration is the receipt of information from employers in relation to scheme members. In order to meet the requirements set out in this document in a secure and efficient way (for both employers and the Administering Authority), employers will use a secure data transfer system, due to be introduced during 2016/17. Any employers not submitting data using this data system, once it is made available to them, may risk compromising data security.

Oversight of Compliance and Quality
Ensuring compliance is the responsibility of the Administering Authority and the employers in the Fund. The Administering Authority has a range of internal controls in place to assist with ensuring compliance and which are articulated in the Fund's risk register. However, there are ways in which the Administering Authority is subject to elements of scrutiny or oversight:

Audit
The Fund is subject to a regular annual audit of its processes and internal controls. The Administering Authority and the employers are expected to fully comply with any reasonable requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by London Borough of Hillingdon, in its role as Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Local Pension Board, the national Scheme Advisory Board and the Pensions Regulator
The Public Service Pensions Act 2013 introduced greater oversight of LGPS Funds. As a result the Local Pension Board of the London Borough of Hillingdon Pension Fund was established from 1 April 2015. In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and the employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator. Any recommendations made from any of these entities will be considered by London Borough of Hillingdon, in its role as Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Performance Standards – Timeliness and Accuracy

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to the legal requirements, local performance standards have been agreed which cover all aspects of the administration of the London Borough of Hillingdon Pension Fund. In many cases these go beyond the overriding legislative requirements.

The locally agreed performance standards for the Fund are set out in Appendix B. These standards are not an exhaustive list of the Administering Authority's and employers' responsibilities. Employers' responsibilities are provided in more detail in the employers' service level agreement.

Although all the locally agreed performance standards will be monitored on an ongoing basis by the administrating authority, the key standards which will be publicly reported on are extracted and shown in the table below. These elements are measured against:

1. Any legal timescale that should be met ("legal requirement")
2. The overall locally agreed target time ("fund target")
3. The locally agreed target time for the Administering Authority or administrator to complete that task ("LBHPF element target").

Generally the LBHPF element target will be a sub-section of the overall process, and hence will have a shorter target timescale than that being measured by the legal and fund targets. This is because the legal and fund targets will generally include periods of time when the Administering Authority is waiting for information to be provided by an employer or scheme member. The LBHPF element target then measures the period of time it takes the administrators to carry out their element of work once that information has been received.

For the avoidance of doubt "accuracy" in this Strategy is defined as when the administrators have received information, for example from an employer, with;

- no gaps in the required areas ***and***
- with no information which is either contradictory or which needs to be queried.

Process maps to explain the flow of information from Schools to the Administrator are in the final stages of development and will be included as Appendix C shortly.

Key Performance Indicators

Process	Legal Requirement	LBHPF Administration element target
To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled[1]	Within 20 working days of receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member) [2]	Within 20 working days of receipt of all relevant information
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request [1]	Within 20 working days of receipt of all relevant information
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate) [3] or within a reasonable period (cash transfer sum) [4]	Within 20 working days of receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	1 month from date of retirement if on or after Normal Pension Age [1] 2 months from date of retirement if before Normal Pension Age [1]	Within 15 working days of receipt of all relevant information
Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months [1]	Individual request within 10 working days of receipt of all relevant information
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request [1]	Within 10 working days of receipt of all relevant information

1 - The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended

2 - The Occupational Pension Schemes (Preservation of Benefit) Regulations 1991

3 – Occupational Pension Schemes (Transfer Value) Regulations 1996

4 – Pension Schemes Act 1993

Improving Employer Performance (where necessary)

This Strategy is focussed on good partnership working between the Administering Authority and the Fund's employers. However, it is recognised there may be circumstances where employers are unable to meet the required standards. The Corporate Pensions Manager will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance or misunderstanding, provide opportunities for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

It is expected that it will be extremely rare for there to be ongoing problems but, where persistent and ongoing failure occurs and no improvement is demonstrated by an employer, and/or unwillingness is shown by the employer to resolve the identified issue, the steps the Administering Authority will take in dealing with the situation in the first instance are set out below:

- The Corporate Pensions Manager will issue a formal written notice to the person nominated by the employer as their key point of contact, setting out the area(s) of poor performance
- The Corporate Pensions Manager will meet with the employer to discuss the area(s) of poor performance, how they can be addressed, the timescales in which they will be addressed and how this improvement plan will be monitored.
- The Corporate Pensions Manager will issue a formal written notice to the person nominated by the employer, setting out what was agreed at that meeting in relation to how the area(s) of poor performance will be addressed the timescales in which they will be addressed
- A copy of this communication will be sent to the Corporate Director of Finance or other senior officer at that employer.
- The Corporate Pensions Manager will monitor whether the improvement plan is being adhered to and provide written updates at agreed periods to the person nominated by the employer, with copies being provided to the Director of Finance (or alternative senior officer) at that employer.
- Where the improvement plan is not being delivered to the standards and/or timescales agreed, the Corporate Pensions Manager will escalate the matter to the London Borough of Hillingdon Deputy Director Strategic Finance who will determine the next steps that should be taken. This may include (but is not limited to):
    - Meetings with more senior officers at the employer
    - Escalating to the London Borough of Hillingdon Pensions Committee and/or Pension Board
    - Reporting to the Pensions Regulator or Scheme Advisory Board.

Circumstances where the Administering Authority may levy costs associated with the Employers' poor performance

The Administering Authority will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy. The Administering Authority will also work with them to ensure that overall quality and timeliness is continually improved.

The Regulations provide that an Administering Authority may recover from an employer any additional costs associated with the administration of the scheme incurred as a result of the unsatisfactory level of performance of that employer. Where an Administering Authority wishes to recover any such additional costs they must give written notice stating:-

- The reasons in their opinion that the employer's level of performance contributed to the additional cost
- The amount the Administering Authority has determined the employer should pay
- The basis on which this amount was calculated, and
- The provisions of the pension administration strategy relevant to the decision to give notice.

London Borough of Hillingdon, as the Administering Authority, will generally not recharge to an employer any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance. However:

- in instances where the performance of the employer results in fines being levied against the Administering Authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, an amount no greater that the amount of that fine will be recharged to that employer.
- whether or not interest will be charged on late contributions will be stated within the Administering Authority's separate policy on discretionary provisions.
- in exceptional circumstances, particularly where the improvement plan as outlined in the last section of this statement is not being adhered to, the Pensions Committee may determine that any other additional costs will be recharged. In these circumstances the Pensions Committee will determine the amount to be recharged and how this is to be calculated. The employer in question will be provided with a copy of that report and will be entitled to attend the Pensions Committee when this matter is being considered.

Measuring whether the Administration Objectives are met

The Administering Authority will monitor performance in carrying out its responsibilities in relation to the scheme, and will regularly monitor performance by benchmarking against other administering authorities, using benchmarking clubs and other comparators available. How well the Fund performs will be reported in the Fund's Annual Report based on the statistics available at that time.

In addition, the Administering Authority will monitor success against its administration objectives in the following ways:

Objectives	Measurement
Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders.	Key target service standards (highlighted in table above) achieved in 95% of cases*.
Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money.	Cost per member is not in upper quartile when benchmarked against all LGPS Funds using national data (either SF3 or SAB)
Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.	Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months. Key target service standards (highlighted in table above) achieved in 95% of cases*. Issues included in formal improvement notices issued to employers resolved in accordance with plan. .
Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.	Mainly positive results in audit and other means of oversight/scrutiny. Key target service standards (highlighted in table above) achieved in 95% of cases*.
Maintain accurate records and ensure data is protected and has authorised use only.	Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months No breaches of data security protocols Mainly positive results in audit and other means of oversight/scrutiny

*Employers are expected to meet their targets in 95% of cases.

An overview of performance against these objectives and in particular against target standards for turnaround times will be reported within the Fund's annual report and accounts and also reported on regularly to the Pensions Committee and Pension Board.

Where performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Administering Authority will formulate an improvement plan. This will be reported to the Fund's Pensions Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

Key Risks

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon Corporate Pensions Manager and other officers will work with the Pensions Committee and the Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Incorrect calculation of members' benefits resulting in inaccurate costs (to employer), through for example, inadequate testing of systems
- Failure of employers to provide accurate and timely information resulting in incomplete and inaccurate records, which could lead to incorrect valuation results and incorrect benefits, which in turn could lead to complaints
- Failure to administer scheme in line with regulations and policies, including due to delays in enhancement to software or regulation guidance (e.g. transfers).
- Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Unable to deliver a service to pension members due to system unavailability or failure
- Failure to maintain employer database leading to information not being sent to correct person

Approval and Review

This draft Strategy Statement was approved for consultation with stakeholders on 15 June 2016 by the London Borough of Hillingdon Pensions Committee. It will be reviewed following consultation with a view to the final strategy being agreed by Pension Committee on 21 September, to become effective from 1 November 2016.

It will be formally reviewed and updated at least every three years or sooner if the administration management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS Regulations or other relevant Regulations or Scheme Guidance which need to be taken into account.

In preparing this Strategy the Administering Authority has consulted with the relevant employers, the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on the Administering Authority's website at: http://www.hillingdon.gov.uk/pensions.

Further Information

Any enquiries in relation to the day to day administration of the Fund or the principles or content of this Strategy should be sent to:

Ken Chisholm, Corporate Pensions Manager
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

e-mail - kchisholm@hillingdon.gov.uk
Telephone - 01895 250847

Appendix A

Administration Legal Requirements within the LGPS

Regulations 72, 74 and 80 of Local Government Pension Scheme Regulations 2013 require the following:

Employer Responsibilities:

- To decide any rights or liabilities of any person under the LGPS (for example, what rate of contributions a person pays and whether or not a person is **entitled** to any benefit under the scheme) as soon as is reasonably practicable*
- To formally notify that person of the decision in relation to their rights or liabilities in writing as soon as is reasonably practicable (including a decision where a person is not entitled to a benefit and why not), including information about their internal dispute resolution procedure
- To inform the Administering Authority of all such decisions made
- To provide the Administering Authority with such information it requires so it can carry out its functions including, within three months of the end of each Scheme year**, the following information in relation to any person who has been an active member of the scheme in the previous year:
    - name and gender
    - date of birth and national insurance number
    - a unique reference number relating to each employment in which the employee has been an active member
    - in respect of each individual employment during that year:
        - the dates during which they were a member of the scheme
        - the normal pensionable pay received and employee contributions paid
        - the pensionable pay received and employee contributions paid whilst there was any temporary reduction in contributions
        - the normal employer contributions paid
        - any additional employee or employer contributions paid
        - any Additional Voluntary Contributions paid by the employee or employer
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to employer decisions (or a lack of a decision)***

**And at the latest within 1 month of the need for a decision*
***Note that, in practice, the Administering Authority will require this information by a specific date as outlined in the Service Level Agreement in order to meet statutory deadlines on benefit statements*
****Note that, in practice, employers in the London Borough of Hillingdon Pension Fund may use the same person to consider stage 1 IDRP complaints as used by the Administering Authority*

Administering Authority Responsibilities:

- To decide the **amount** of benefits that should be paid, including whether the person is entitled to have any previous service counting towards this for LGPS purposes, as soon as is reasonably practicable
- To formally notify that person of the decision in relation to the amount of their benefits in writing as soon as is reasonably practicable, including a statement showing how they are calculated and information about their internal dispute resolution procedure
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to Administering Authority decisions (or a lack of a decision)
- To appoint a person to consider complaints under stage 2 of the internal dispute resolution procedure (which covers both employer and Administering Authority decisions or lack of decisions)
- To provide on request any information to an employer about a complaint under the internal dispute resolution procedure that may be required by an employer

Regulation 59(1) enables an LGPS Administering Authority to prepare a written statement ("the pension administration strategy") to assist in delivering a high-quality administration service to its scheme members and other interested parties, by setting out local standards which often go beyond the minimum requirements set out in overriding legislation as outlined above, and which the Administering Authority and employers should comply with. The statement can contain such of the matters mentioned below as they consider appropriate:-

- Procedures for liaison and communication with the relevant employers in their Fund.
- The establishment of levels of performance which the Administering Authority and the employers are expected to achieve in carrying out their functions under the LGPS by-
  1. the setting of performance targets;
  2. the making of agreements about levels of performance and associated matters; or
  3. such other means as the Administering Authority consider appropriate;
- Procedures which aim to secure that the Administering Authority and the employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication by the Administering Authority and the employers to each other of information relating to those functions.
- The circumstances in which the Administering Authority may consider giving written notice to an employer on account of that employer's unsatisfactory performance in carrying out its functions under the LGPS Regulations when measured against the desired levels of performance.
- The publication by the Administering Authority of annual reports dealing with—
  1. the extent to which the Administering Authority and the employers have achieved the desired levels of performance, and

ii. such other matters arising from its pension administration strategy as it considers appropriate

- Such other matters as appear to the Administering Authority to be suitable for inclusion in that strategy.

Regulation 59(2)e allows an Administering Authority to recover additional costs from an employer where they are directly related to the poor performance of that employer. Where this situation arises the Administering Authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

In addition, regulation 59(6) also requires that, where a pension administration strategy is produced, a copy is issued to each of their relevant employers as well as to the Secretary of State. It is a requirement that, in preparing or revising any pension administration strategy, that the Administering Authority must consult its relevant employers and such other persons as it considers appropriate.

Both the Administering Authority and employers must have regard to the current version of the pension administration strategy when carrying out their functions under the LGPS Regulations.

Appendix B

Detailed Performance Standards

New Appointments	
Employer's responsibility	**Target Service Standard**
To ensure that pensions information is included as part of the appointment process of new staff	
To provide each new employee with basic scheme information	Within one month of joining

New Scheme Members	
Employer's responsibility	**Target Service Standard**
Provide new members with starter forms and scheme guides, where not delegated to the Administering Authority	10 working days
Decide and ensure the correct employee contribution rate is applied	Immediately on joining in line with employer's policy, and each April thereafter (as a minimum)
Provide new starter information to the Administering Authority for each new employee joining the LGPS	10 working days
Forward completed starter forms completed by scheme members to the Administering Authority	3 working days from date of first deduction of contributions
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 20 working days from receipt of all relevant information
To apply for any transfer value details from a previous fund or scheme	Within 10 working days from receiving all information
To send a Notification of Joining the LGPS to a scheme member	Within 20 working days from receiving all information

Changes in circumstances	
Employer's responsibility	**Target Service Standard**
Arrange for reassessment of employee contribution rate in line with employer's policy	If applicable, as per employer's policy
Notify the Administering Authority of any eligible employees who opt out of the scheme within three months of appointment.	10 working days from date of receiving opt out
Notify the Administering Authority of all other relevant changes in the circumstances of employees	15 working days from date of change
Refund any employee contributions deducted in error, or where the member opts out in writing within 3 months with no previous LGPS membership.	Month following the month of election
Administering Authority's Responsibility	
To accurately record and update member	Within 10 working days from

records on the pension administration system	receiving all information
To send a Notification of Change (or equivalent) if legally required	Within 20 working days from receiving all information

Retirement Estimates (including ill-health)	
Employer’s responsibility	**Target Service Standard**
Provide pay (and other membership) details when a member requests an early retirement estimate	Within 8 working days
Administering Authority's Responsibility	
Providing quotations on request for retirements	Within 10 working days from receipt of all relevant information

Actual Retirements (including ill-health)	
Employer’s responsibility	**Target Service Standard**
Notify the Fund when members are due to retire and reason for retirement (and authorisation where appropriate)	As early as possible and no later than 15 working days before date of retirement
Notify the Fund when a member leaves employment, including an accurate assessment of final pay	Within 8 working days from members final pay date
Send a Notification of Entitlement to Benefit if legally required to a scheme member (including determining tier of ill-health retirement if applicable)	No later than 5 working days before date of retirement
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 10 working days from receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	Within 15 working days from receipt of all relevant information
Notification of amount of recalculated retirement benefits and payment of any balance tax free cash sum following updated information	Within 10 working days from receipt of all relevant information

Ill-Health Retirements (additional responsibilities)	
Employer’s responsibility	**Target Service Standard**
Appoint a qualified independent medical practitioner (from the approved list provided by the Administering Authority) in order to consider all ill health retirement applications, and agree this appointment with the Fund.	Within one month of becoming an employer within the Fund
To keep a record of all Tier 3 ill-health cases and to review these cases after 18 months	
Notify the Fund of the results of any review of Tier 3 ill-health cases with appropriate information to allow the Fund to recalculate benefits if necessary	5 working days of results of review

Send a Notification of Entitlement to Benefit (or change in benefit) to a scheme member following the review of his/her Tier 3 ill-health benefits	Within 5 working days of results of review

Members leaving before retirement	
Employer's responsibility	**Target Service Standard**
Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.	Within 8 working days from member's most recent pay date
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 10 working days from receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	Within 20 working days from receipt of all relevant information
Provide a refund of contributions where requested	Within 20 working days from receipt of all relevant information
Provide a statement of current value of deferred benefits on request	Within 20 working days from receipt of all relevant information

Death Benefits	
Employer's responsibility	**Target Service Standard**
Notify the Fund of the death of a member and provide details of next of kin where available	3 working days of being notified
Administering Authority's Responsibility	
Write to next of kin or other contact requesting information following the death of a scheme member	Within 5 working days from notification
Calculate and notify dependant(s) of amount of death benefits	Within 10 working days from receipt of all relevant information
Decide who should be recipient(s) of death grant and pay death benefits appropriately as directed	Within 10 working days from receipt of all relevant information

Transfers	
Administering Authority's Responsibility	
Obtain transfer details for transfer in, and calculate and provide quotation to member	Within 20 working days from receipt of all relevant information
Request transfer value upon acceptance of transfer in	Within 10 working days
Notify scheme member of benefits purchased by transfer in on receipt of payment	Within 20 working days from receipt of all relevant information
Provide details of transfer value for transfer out, on request	Within 20 working days from receipt of all relevant information
Provide payment of transfer value to appropriate recipient.	Within 10 working days

Additional Benefits (APCs and AVCs)	
Employer's responsibility	**Target Service Standard**
Commence, cease or amend (as appropriate) deduction of APCs and AVCs	In month following election
Administering Authority's Responsibility	
To provide information on APCs / AVCs on request to members and employers.	Within 10 working days from request

Various Financial Obligations	
Employer's responsibility	**Target Service Standard**
Pay the Fund all employee contributions deducted from payroll and all employer contributions.	Immediately when deducted from pay but at the latest by the 19th day of the following month.
Pay all rechargeable items to the Fund, including additional fund payments in relation to early payment of benefits.	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Pay all additional costs to the Fund associated with the unsatisfactory performance of the employer	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Administering Authority's Responsibility	
To allocate the received contributions to each employer's cost centre	Prior to closing month end
Issue invoice in relation to additional fund payments in relation to early payment of benefits	Within 10 working days of employer costs being confirmed
Inform the employers of any new contribution banding	At least 1 month prior to the new contribution bands being introduced
Notify calculation and new value of pension following annual pensions increase	No longer than 2 working days before payment of revised pension

Annual Return, Valuation and Annual Benefit Statements	
Employer's responsibility	**Target Service Standard**
Provide the Fund with year-end information to 31 March each year, and any other information that may be required for the production of Annual Benefit Statements.	By 30 April annually
Administering Authority's Responsibility	
Process employer year end contribution returns	By 31 July each year
Produce annual benefit statements for all active and deferred members.	In line with LGPS regulation timescales
Provide information to the Actuary (or GAD as appropriate) for both the triennial valuation and for accounting purposes.	As agreed between the Fund and the Actuary
Provide an electronic copy of the valuation report and associated certificate to each employer, and to answer any questions arising.	Within 10 working days from publication of report

General	
Employer’s responsibility	**Target Service Standard**
Confirm a nominated representative to receive information from the Fund, and to take responsibility for disseminating it within the organisation.	By effective date of admission or within 5 working days of previous representative leaving
Formulate and publish policies regarding all discretions that the employer may exercise, and provide a copy to the Fund.	Within 2 months of joining and also provided to Administering Authority every 3 years or whenever amended
Respond to enquiries from the Fund.	10 working days
Notify the Fund if the employer intends to outsource services that will involve TUPE transfers of staff, and work with the Fund to ensure an admission agreement is put in place and complied with or a bulk transfer arranged.	Initial notification immediately upon becoming aware of potential outsourcing, and at least 3 months prior to the start of the contract
Distribute any information provided by the Fund to members / potential members	5 working days
Put in place a Stage 1 Internal Dispute Resolution Procedure	Within 1 month of joining and before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Administering Authority's Responsibility	
Arrange for the setting up of an admission agreement where required	As soon as possible following receipt of information and prior to the start of any contract
Publish (on-line) and keep up to date the Short Scheme Guide and Employers' Procedural Guide.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish and keep up to date all forms that members, prospective members and employers are required to complete.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish the Fund’s annual report and accounts and any report from the auditor	In line with CIPFA Guidance
Provision of other responses to general enquiries from scheme members and employers	Within 10 working days to provide initial response
Put in place a Stage 1 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Put in place a Stage 2 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)

Pension Payments	
Administering Authority's Responsibility	**Target Service Standard**
Issue pension payments to designated bank accounts	To arrive on due date
Issue payslips to home addresses for those pensions where net pay has changed by £10 or more	Posted so as to arrive on the due date
Investigate returned payments and action appropriately	Within 10 working days from receipt of return
Respond to pensioner queries in writing	Within 10 working days from receipt of query
Implement a change to pension in payment	By next payroll period where change occurs more than 5 days prior to the payment date

Appendix C

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Agenda Item 10

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Agenda Item 11

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